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**Social Impact Bond: an innovative model of
financing social services**

Proposal for Italy

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Abstract

The main objective of this document is to study a new social investment tool that was born in UK in the 2010, Social Impact Bond. It is based on the “pay per success” concept: investors are paid back only if social, predetermined and measurable objectives have been achieved. According to this framework, the entity responsible for the payments is the Government. In fact, if social objectives are met, the public entity will record measurable savings; these savings will be used to pay back the investors. In this way the risk is totally transferred to the private actors.

The network of actors participating to the model is composed by:

- Private investors that provide the capital and take the whole risk;
- Government that is responsible to pay back investors using the savings generated by achieving predefined social aims;
- Social organization that implements the social programs on a targeted population;
- An intermediary that has the important role to put in contact the social provider with the investors;
- A third independent part that has to measure the results in the most transparent way, in order to guarantee a fair payments to investors.

In order to record considerable savings, it is very important that the Social Impact Bond model is implemented only for preventive long term programmes. More specifically, the objectives must be to avoid a specific expense to the Government reaching, at the same time, an important social aim. Furthermore, due to the possibility given by the model to implement long term programmes, there is the concrete possibility to effectively reach the social aim (reintegration of ex- prisoners in the society). Using the traditional way of funding social programs, like spot donations, it is almost impossible to implement long lasting projects; while, through the Social Impact Bond model, there is a specific and known sum of capital that will be provided constantly during time and it is possible to prepare effective programs lasting several years, helping for real the targeted population.

In this document, the greatest part of the Social Impact Bond opened around the world will be described and analysed in order to provide a complete picture of the current situation and to compare the adopted solutions and the results achieved in different Countries and sectors.

Finally, there will be a focus on Italy, through which the current situation of our Country will be analysed in order to understand why Italy should catch the SIB opportunity and, at the same time, to identify what would be the challenges in the implementation of this tool. Public administrations are not able anymore to face the risks and the costs related. Anyway, many obstacles would be addressed in case of a SIB implementation, given both by the regulatory system and by the organizational and cultural problems typical of the social, political and institutional context to both the construction and the supply of welfare infrastructures and services.

In this document, the Italian situation will be analysed also considering the scenario of starting the first Social Impact Bond in the “children at risk of going into care” sector. The sector has resulting very promising for the application of this framework, as it is possible to see in the already implemented SIB in Essex, UK and in the Australian experiences. In fact, the cost sustained by the public entities in order to have a children into care is very high. Moreover, children suffer the terrible trauma of being removed from their familiar environment. According to the data collected through interviews to some sector professionals and available official reports, the programs implemented in the house families result completely ineffective and children who leave these institute do not achieve any positive results and usually start to have the same problems they had before entering into care. So the proposal is to act in a preventive way on those children who risk of going into care, helping them and their families through effective long lasting programs (both facing the economic and psychological problems), avoiding the consistent expense of having children in the house families giving them a real help and the concrete possibility of a better future.

Compendio

Lo scopo principale di questa tesina è studiare un innovativo modello di finanziamento dei servizi di welfare, composto da tutte quelle organizzazioni di natura privata che sono però volte alla produzione di beni e servizi di natura pubblica o collettiva.

Questo modello è chiamato Social Impact Bond ed è nato in Gran Bretagna nel 2010. Si basa sul concetto di “*pay per success*”: gli investitori che forniscono il capitale vengono ripagati solo se gli obiettivi sociali stabiliti inizialmente vengono effettivamente raggiunti.

Secondo questo modello il Governo, o un'altra entità pubblica specifica, dovrà ripagare gli investitori utilizzando i risparmi che, l'implementazione dei programmi a scopo sociale, avranno portato alle casse dello Stato. In questo modo, il rischio è completamente allocato agli attori privati, i quali mettono a disposizione il capitale consapevoli che il loro ritorno è legato al raggiungimento di determinati obiettivi sociali.

Il network degli attori che partecipano al modello dei Social Impact Bond è costituito da:

- Gli investitori privati che forniscono il capitale e si assumono il 100% del rischio;
- Un ente pubblico che ha il compito di ripagare gli investitori nel qual caso gli obiettivi risultassero raggiunti;
- Un organizzazione del terzo settore che implementerà determinati progetti su una popolazione target in modo da raggiungere specifici risultati;
- Un intermediario che si occuperà di mettere in contatto l'organizzazione sociale e gli investitori privati e supervisionare i progetti durante tutto l'arco di apertura del Social Impact Bond;
- Un ente terzo e indipendente che si occuperà di misurare in modo obiettivo e trasparente i risultati (parziali e finali) ottenuti in modo da garantire l'equità dei pagamenti agli investitori.

Affinché l'ente pubblico registri consistenti risparmi, tali da essere in grado di ripagare gli investitori, è importante che il modello sia implementato su programmi a lungo termine e di prevenzione. Il più famoso ed esemplificativo caso è quello del Social

Impact Bond volto a ridurre il tasso di recidiva tra una popolazione target di prigionieri di Peterborough, UK. Tramite questo Social Impact Bond si è voluto, quindi, prevenire il rientro in carcere di una determinata popolazione ottenendo un impatto sia sociale sia finanziario (il costo di un prigioniero per lo Stato è, infatti, molto elevato). Affinché il programma sia efficace deve essere di lungo periodo: la riabilitazione e il reinserimento in società richiedono tempo e sforzi notevoli. Ecco perché il Social Impact Bond si presta molto meglio rispetto a metodi tradizionali che di affidano, ad esempio, alle donazioni: avendo a disposizione sin dall'inizio un certo capitale, fornito in modo costante e sicuro, l'organizzazione può pianificare in modo più efficace le sue attività e ottenere risultati di gran lunga più consistenti.

Dopo aver analizzato le caratteristiche del Social Impact Bond, questo documento analizza i numerosi casi già esistenti nel mondo con l'obiettivo di analizzare e confrontare le soluzioni adottate e i risultati ottenuti in diversi settori e Nazioni differenti.

Infine il focus sarà spostato sull'Italia, considerando l'ormai realistico scenario dell'apertura di un primo Social Impact Bond e analizzando il settore dei bambini a rischio di essere tolti alle famiglie e presi in carico dallo Stato. Esiste già un caso di Social Impact Bond in questo settore in Essex, UK che sta dando risultati positivi.

Infatti, prendere in carico un bambino risulta per lo Stato un costo elevato e i risultati che le case famiglia riescono ad ottenere nel tentativo di aiutare questi bambini sono molto scarsi. Dalle interviste svolte ad alcuni professionisti del settore e da report ufficiali del Governo Italiano, si comprende che la quasi totalità dei ragazzi che, raggiunta la maggiore età, lasciano gli istituti non riescono ad inserirsi nella società al pari degli altri. In buona parte riprendono le cattive abitudini o restano comunque emarginati. Infatti, pochissimi riescono a terminare gli studi, conseguendo un diploma, o a trovare un lavoro onesto. La proposta è quindi di agire in modo preventivo su quelle famiglie considerate a rischio, aiutando sia economicamente che psicologicamente bambini e genitori ad intraprendere un percorso di cambiamento che possa davvero dare loro la possibilità di un futuro migliore.

Executive Summary

Social investment market: gaps to be addressed

The social investment market is defined by investments intended to create a positive social impact, expecting a financial return. It appears as an emerging and continuously growing market in which on the supply side, social entrepreneurs are becoming more experienced and skilled, starting considering the financial side of the social organization and on the demand side social organisations are becoming increasingly market-based and more socially-motivated.

Being emerging, the social investment market presents still a lot of gaps to be addressed that we are going to investigate in detail:

- More capital for social purpose organizations, that result poorly serviced by banks and that find difficulties in attracting investors;
- Investments that considers both social and financial results, between grants and conventional investments;
- Better governance and financial literacy: the social investment market lacks of financial skills and there is still a negative attitudes towards debt-financed growth;
- Understanding that grant funding and investment are mutually reinforcing;
- Development investment readiness in order to attract banks and investors that will recognize their creditworthiness;
- Investment to strengthen organizations and push the growth of the social organizations;
- Measuring social impact: only through a robust measurement system it is possible to understand if the implemented initiatives are effective and what kind of results they provide;
- Need of intermediaries: they are necessary in order to match the demand and supply sides of the social investment market, to constantly monitor the activities and guarantee the needed transparency;
- Solve the mismatch in the demand and supply side of the social investment market.

What is a Social Impact Bond

It represents an innovative type of outcome-based contract between the private and the public sector in which public sector commissioners commit to pay for significant improvement in social outcomes for a defined population. Through this scheme, Government has not to pay upfront for a prescribed set of services and can focus on programs that really work, paying only if he agreed-upon outcomes are achieved. Furthermore, the focus is not anymore on inputs (e.g. number of doctors) or outputs (e.g. number of operations) but it is on measurable and predetermined social outcomes. Governments can agree with the other actors to buy specific social outcomes and not specific activities.

The fundamental points characterizing the SIB model (that will be deeply discussed later in this document) are:

- Pay Per Success mechanism: investors are paid back only if predetermined objectives are achieved;
- Preventive nature of the implemented programs;
- The entity that pay back the investors is the central or local Government, using the savings obtained by reaching the established social aims; in such a way the Government has not to provide the capital upfront and the entire risk is transferred to the private investors;
- The entire scheme is focused on outcomes and not on outputs: what really matters is to meet the social aims;
- Social providers, helped by the intermediaries, are pushed to be effective and innovative, in order to make the programs successful, pay back investors and, eventually, broad the programmes on a larger scale;
- The importance of the measurement methods, their transparency and fairness brings to collect and analyse data in the best way and to recognize what are the most effective projects.

The actors involved in the SIB network of relationship are:

- Public entity (government, region, city) that has the responsibility to pay back investors when projects succeed;

- Non-profit organizations or social enterprises, that manage social preventive programs;
- Private investors, who provide the capital needed by no profit actors to carry on their projects and who will receive a return by public entities in case of success;
- An independent entity that evaluates if the predetermined objectives are met or not at the expiration date;
- An intermediary who ease contacts among different parties and monitors programs in order to understand if objectives are going to be achieved or nor guaranteeing in this way an higher transparency. An example of intermediary is given by the British “Big Society Capital”. Its mission consists in investing in social enterprises, philanthropic institutions, volunteering organizations that have problems in gathering financings at affordable conditions. It provides greater financial solidity and stability. This operation is financially covered by withdrawal from accounts not used in the last fifteen years.

The main objectives of the SIB model are to:

- Increase the pool of capital available to fund preventive and early interventions;
- Encourage a broad diversity of service providers and collaboration between providers;
- Create more market discipline and offer predictable revenue streams for service providers to enable those that are effective to thrive;
- Align public sector funding more directly with improved social outcomes focusing on outcomes instead that on outputs;
- Encourage a more rigorous approach to the measurement system of the results in order to build a broader evidence base ok what really work; Accelerating the expansion of evidence-based programs delivered by effective social service providers;

SIB global experiences

Around the world there are many already existing experiences in various fields. The main are:

1. Criminal justice: it is the most famous one because the first SIB was related to the rehabilitation of prisoners in the Peterborough prison, in UK. The rehabilitation of prisoners can be considered a very good sector for the application of the SIB model. In fact:
 - it involves preventive programmes: the aim is to prevent prisoners to offend again;
 - if successful, it has the potentialities to produce savings for the government, that would not sustain the cost of those ex-prisoners;
 - it address deep-seated social issues : in fact, the rate of recidivism is currently very high and, in order to be reduced, it requires long lasting programmes, investments and commitment that the SIB tool is able to provide;
 - it is a project that can be easily applied on a larger scale: if successful the savings will increase because of the huge decreasing of prisoners that will lead to diminish the number of expensive prisons;
 - it would have an important social impact delivering a safer society.

2. Vulnerable children: it is a sector that needs funds due to the increasing of demand and decreasing of the available budget. Moreover, it represents a promising area for the application of the SIB model due to the short and long term savings given by having, in the short term, less children into care (that is a very expensive service for the local government) and more employed and honest citizens in the future. It is also to be considered the high social impact of the children social care issue: in fact, young people often enter into care because of multiple and complex behaviour problems, triggered at adolescence, which lead to aggression, antisocial behaviour, parental loss of control, family breakdown, and ultimately an inability or lack of desire to continue living with the birth family.

3. Unemployment: in this area the interventions are provided targeting people who are disadvantaged or at risk of disadvantage to help them participate and succeed in education or training and thereby improve their employability. the SIB will

give to the Government the possibility to enjoy a direct economic benefit, as a result of a reduction in welfare support spending, an increase in tax revenue and a growth of GDP.

4. Rough sleeping: according to Social Finance data, rough sleepers are amongst the most vulnerable people in society, with the average age of death of individuals in hostels or registered with homelessness services 40-44 years. Some different savings the Government may achieve if the SIB will be successful were be defined, relating them to the type of costs currently sustained:
 - Rough sleeping costs;
 - Accommodation costs;
 - Criminal Justice costs;
 - Employment costs;
 - Health costs.
5. Health costs: the idea is to prevent some health problems like the diabetes or the asthma that are very expensive for the Public Entity, developing specific preventive programmes for the people who are considered at risk.

State of the Art in Italy

So far in Italy, there is not any experience of Social Impact Bond that can be compared with the English one. Analysing the social impact investment market state of the art, it is possible to note a great attention towards the new methods to fund the social purpose organizations.

Many banks are starting to issue Social Bonds, a new type of obligation that is spreading quickly in Italy. They are obligations aiming to fund social purpose initiatives and organizations. The outcome based payment method, fundamental in the British model, is not adopted in the Italian social bond in which the remuneration is guaranteed and not linked to the result. In the Social Bond scheme the banks role is fundamental, both national and local ones. The subscriber of the Social Bond knows that a part of the collected amount, typically 1-1,5 %, will be provided free of charge to a specific entity. This amount will be used alternatively to fund a social project or to open a credit line for the provision of funding to favour entrepreneurial initiatives promoted by non-profit organizations.

The introduction of this innovative model would find some obstacles that may be categorized in two main macro areas: the first one is related to constraints imposed by the regulatory system, the second one to organizational and cultural problems typical of the social, political and institutional context. More specifically:

- Social enterprises are limited by strict laws that should be modified (155 law forbids the distribution of the profit generated by social enterprises).
- SIB are in a grey area, between a financial instrument and a public tender
- In Italy it is not possible to choose directly the private who will finance the SIB because it would be a violation of the competitiveness law.
- The regulatory system related to the public expenditure (future commitment).
- The spending review consequences.
- It's not given for granted that there are investors willing to accept and sustain the risk of this operation.
- Lack of appropriate measurement systems in the social purpose organizations.

Proposal of SIB introduction in Italy

The proposed sector for the introduction of the SIB model in Italy is the children at the edge of care. In this document the feasibility assessment process was carried out in order to understand if the specific sector is eligible for the use of the SIB tool. This process requires to consider six points:

1. The intervention is preventive in nature and there are not enough funding

The proposal is about starting preventive programs towards children on the edge of care, avoiding in such a way that they will grow up far from their parents. These programs should include economic and psychological support to the families that the intervention will take into consideration, during a long lasting period of time.

2. The intervention improves the social wellbeing and prevents or ameliorates an undesired outcome

The improvement of the social wellbeing, given by the implementation of the specified programs, are given by:

- Avoided trauma for the children who keep staying at their home;

- Avoided trauma for the parents who suffer a lot the distance from their children;
- Greater future perspective for the children.

3. The specific impact of the intervention can be quantified

It is possible to estimate the impact of this program reliably taking into account a certain number of important factors. First of all targeting the group that will benefit from the interventions, then defining the control group and finally the specific outcomes that are going to be measured.

4. A sufficient number of people will benefit from the intervention

The SIB model works well if applied on a large scale because this allows the Government to record more consistent savings. In Italy there are potentially 15.000 children who, with their families, are eligible to benefit from these interventions

5. It is possible to identified a specific Government stakeholder that will achieve savings or lower costs as a result of action undertaken by others

the Government will have savings in the short term given by the reduction of the tuitions provided to the house families. Moreover it will have savings in the future related to a reduction of unemployment and criminality. Specifically, these savings will be related to the Local Authority, that pays the family houses to take care about children who need it.

6. It is possible that the government would enter into an arrangement to pay some proportion of the savings back to the SIB

Currently, given the legal constraints it would not be possible. There is the need of changing the already mentioned laws or make some exception to the general rule (as done in UK).

As already said, the introduction of the SIB model in Italy has to face some problems. First of all, this would be the first experiment of Social Impact Bond in Italy. It means that it is needed a greater attention and control because there are no consolidated procedures different actors can count on.

Moreover, as already mentioned, there are some constraints given by accounting and competition laws. In other countries, like in Great Britain, the first SIB was developed through some “exceptions to the general rules”.

One of the aim of this paper is to analyse these obstacle trying to find some possible solutions to overcome them and, at the same time, try to understand what are possible benefits and risks that have to be taken into consideration.

Objective of the thesis

The main objectives of the thesis were to investigate the new phenomenon of the Social Impact Bond worldwide. The document is divided into three main parts.

The first one describes the state of the art of the social investment market highlighting the gaps that should be addressed through new and innovative model, like the Social Impact Bond (SIB).

The second one consists in a deep analysis of the SIB scheme, its specific features, benefits, drawbacks and potentialities, the results it gave in different contexts, Countries and sectors in which it is been applied. Moreover, it contains a complete mapping of the SIB cases worldwide, categorized according to the problem they address. Each case is described analysing the problem that the SIB aims to solve, what are the fixed social and financial objectives, how the network of contracts among the different actors is built.

The third part is totally focused on Italy. The main obstacles will be described, trying to understand how it is possible to overcome them as well as the potential benefits will be analysed, in order to provide a realistic future scenario for our Country. Furthermore, the current social investment market situation will be investigated providing a complete picture of the already existing Social Bonds: they are totally different from the English Social Impact Bond, but represent a signal of the sensitivity of the market towards the innovative instruments able to answer to the current market needs.

In the last part the objective is to study the feasibility of the implementation of the SIB model in the “children at risk of going into care” sector; the sector is analyzed in accordance to the characteristics required by the SIB tool; an estimation of current costs and possible future costs and savings is provided in order to try to forecast the impact of the new model.

Social investment market: gaps to be addressed

The social investment market is defined by investments intended to create a positive social impact, expecting a financial return. Generally the impact investments aim to improve the life of poor and vulnerable people, expanding access to basic services. Investments may take the form of traditional financial structures, like equity or debt, or more innovative structure like the Social Impact Bond, where returns are linked to the achieved social performances. (O'Donohoe, Leijonhufvud, & Saltuk, 2010)

The social investment market appears as an emerging and growing market that has passed a watershed. As it is possible to see from the figure below, provided by BigSociety Capital, in the last years its growth has never stopped.

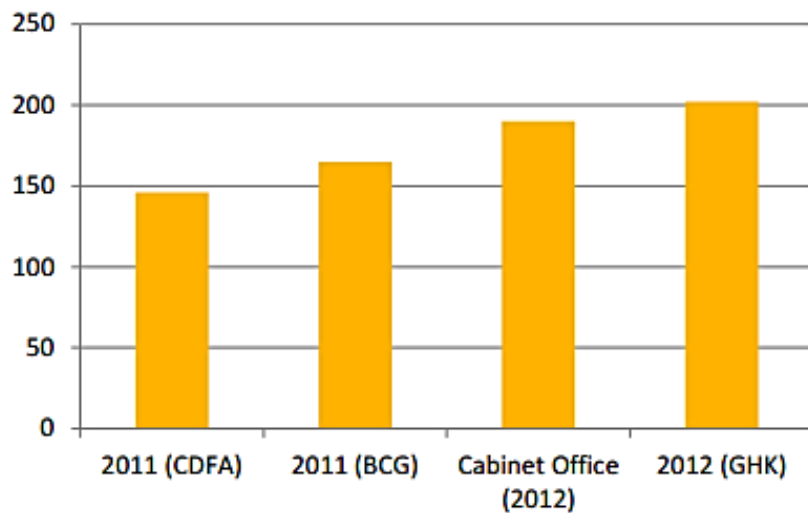


Figure 1: Social Investment Market size; Source: BigSociety Capital Compendium

On the supply side, social entrepreneurs are becoming more experienced and skilled, starting considering the financial side of the social organization, using financial acumen to achieve successfully their social purposes. (Evenett & Richter, 2011) They are beginning to engage with the idea of combining financial and social returns. (Bridges Ventures, 2014)

At the same time, on the demand side, existing social investors are developing an investment track record and a detailed understanding of what drives success in this industry is emerging. (Evenett & Richter, 2011) Furthermore social organisations are becoming increasingly market-based, enterprise is becoming more socially-motivated and the public sector is increasingly 'spinning out' provision of services a broadening range of asset owners. (Bridges Ventures, 2014)

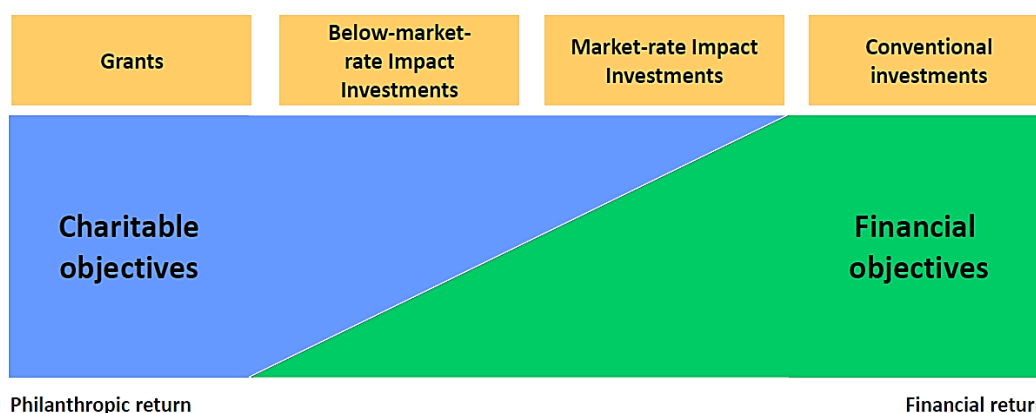
Being emerging, the social investment market presents still a lot of gaps to be addressed. That is why many different new instruments were developed during the last years, comprised the Social Impact Bond one. (Evenett & Richter, 2011) In order to well understand why the SIB model represents a so innovative instrument, it is important to analyse in depth what are the current needs characterizing the social impact investment market.

1. More capital:

There is a limited available funding for the type of investment social organizations required; opportunities for loan finance were few and far from the social investment market; the social enterprise sector is very undercapitalised and poorly serviced by banks. On one side, social providers need to improve, to track their achieved results and to be more result-oriented in order to give more information and assurance to investors; on the other side there is the need of investors interested in developing a financial relationship with the social providers (Evenett & Richter, 2011)

2. More plurality of providers and types of capital:

According to Paul Cheng (Head of Caf Venturesome) and Hugh Biddell (Head Of Charities & Public Sector Banking, Corporate And Institutional Banking, Royal Bank Of Scotland) social organizations need more hybrid products that are identified between a grant and a purely commercial market – as shown in the table below. (Evenett & Richter, 2011)



Source: Sarah Cooch and Mark Kramer. "Compounding Impact: Mission Investing by US Foundations." FSG Social Impact Advisors (March 2007).

Figure 2: Spectrum of Foundation Investments; Compounding Impact: mission investing by US Foundation

In the figure above, the spectrum of Foundation investments is shown. It considers the traditional grants, that have only social purpose, and the conventional investments, that have only the purpose to obtain a consistent financial return. (Cooch & Kramer, 2007)

Traditionally, capital has been allocated either to investments, designed to maximize the financial return in accordance with the level of taken risk, or to donation designed to maximize the social impact. But it is evident that charitable donations will not be able to solve the world's problems; at the same time, business principles may push innovation and creativity in this sector. (O'Donohoe, Leijonhufvud, & Saltuk, 2010)

Therefore, what currently the social investment market is looking for is represented by the area in between grants and conventional investments: investments that considers both social and financial results.

More specifically two types of mission investment are identified:

- *market-rate mission investments* that seek financial returns approximating the average risk-adjusted returns of similar investments made without regard to social or environmental considerations;
- *below market-rate mission investments* that seek financial returns lower than the risk-adjusted average. (Cooch & Kramer, 2007)

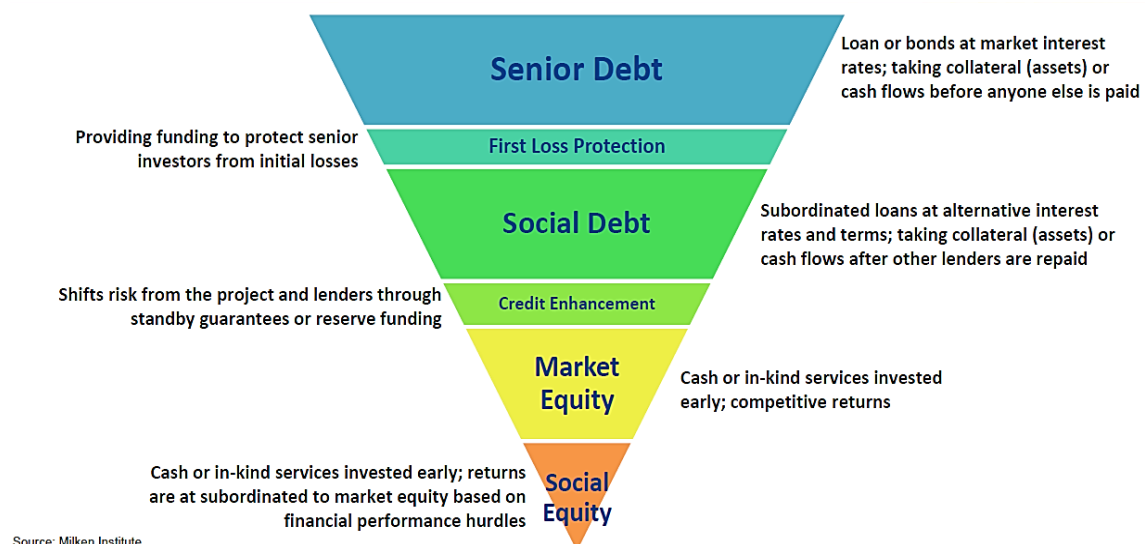


Figure 3: Types of capital, Milken Institute

Thus, social impact investments introduce a new type of capital, merging the motivation of traditional investment (financial returns) and donations scope (social impact). (O'Donohoe, Leijonhufvud, & Saltuk, 2010) Using hybrid products, there would be an

opportunity for the intermediaries to participate in innovative capital structures that have social purposes, giving greater credibility to social investments as an asset class. It is important to consider the social return and its value as part of the sustainable and compelling business model into which the investor has committed rather a financially derived value. (Evenett & Richter, 2011)

It is crucial to have more capital suppliers and to recognize that the social impact investment market would be stronger if there were greater competition among funders. Organisations want funders to offer a range of products that respond to their particular funding requirements. Many more suppliers are needed, offering more and larger-scale social investment competing with each other. (Evenett & Richter, 2011)

The need of a plurality of type of capital was also identified by SEFA, Social Enterprise Finance Australia. It experienced that a significant barrier to accelerating the growth of impact investing is the lack of options to de-risk transactions, bringing them to levels matching the risk appetite of commercial funding. This can be exacerbated by a mismatch in return expectations between social entrepreneurs and investors: the social entrepreneur can be primarily driven by social return, versus a primary focus on financial returns from the investor. (Social Enterprise Finance Australia, 2014)

3. Better governance and financial literacy:

The social investment market lacks of financial skills. The loan finance is currently not well understood by social entrepreneurs and there is still a negative attitudes towards debt-financed growth. Some interviewed English charities were “horrified” to hear that social purpose organizations may take on debt to finance an asset-backed project. So what is needed is a greater awareness about the *business nature* of charities and social enterprises and, as a consequence, financial experts who can drive the change in the market. (Evenett & Richter, 2011)

4. Understanding that grant funding and investment are mutually reinforcing:

The benefits of intermediate capital and how its flexible characteristics can support further development of the social sector, are not fully appreciated. Not all investments need to be “plain vanilla” loans (=the most basic or standard version of a financial instrument; for example, a plain vanilla option is the standard type of option, one with a simple expiration date and strike price and no additional features). It was widely

recognized among the organisations that grant funding alone is not viable as a source of sustainable business funding. Grant funding can never be enough and a mature market should include a mix of loan, grant and business support products. (Evenett & Richter, 2011)

5. Developing investment readiness:

According to Social Finance, the lack of investment readiness is one of the main barriers organisations face in reaching the potential they have. It defines the investment readiness as “*an investee being perceived to possess the attributes, which makes them an investible proposition by an appropriate investor for the finance they are seeking*”. (Gregory, Hill, Joy, & Keen, 2012)

An essential part of developing the intermediate capital offering is to focus on helping organisations with business support and provide the resources to develop their investment readiness, to move them from “unbankable” to a point where mainstream banks will recognize their creditworthiness. Individuals interested in a social agenda and working in social enterprises and charities do not always have sufficient background in business and banking. (Evenett & Richter, 2011)

Even though governments have spent significant sums in the last decades to support organisations towards investment, at a systemic level, the investment readiness of the sector as a whole is still perceived to be lacking. (Gregory, Hill, Joy, & Keen, 2012)

6. Investment to strengthen organizations:

Going through the process of getting funding makes an organization more investible; it is a virtuous circle that flows from the combination of investment and investment readiness, consistent with the theme of an emerging market. Organisations that do focus on being able to demonstrate greater investment readiness and robust business cases do then go on to attract more mainstream sources of finance, either leveraged in by social impact investment or separate as follow-on funding. Going through the social investment process helps build robustness into the organization, into its processes, into the internal questions asked. Social investment pushed the organization to grow. (Evenett & Richter, 2011)

7. Measuring social impact:

9. Solve the mismatch in supply and demand side

This is one of the most evident problem in the social investment market. As noted by John Brooks (Director Of Sales & Marketing, Unity Trust Bank) there are organizations needing funding much more than before, but not having the capital base to secure it from mainstream sources. (Evenett & Richter, 2011)

According to the BigSociety data, the social sector shows significant interest in social investment, with 56% Voluntary and Community Sector in England (VCSEs) expressing interest in it. (BigSociety, 2013)

But the feeling still perceived is that there is too much capital chasing too few investable projects and that there is too much demand and not enough supply of capital. (Bridges Ventures, 2014)

In order to really solve this mismatch and to address all the social investments market gaps, in the last years different tools have been elaborated. In this thesis one of the most important will be investigated, the Social Impact Bond, showing how it may be a good solution to many of the explained current problems.

Literature review: what is a Social Impact Bond

Traditionally the construction of important welfare-related infrastructures is treated just like the one of, for example, a bridge, or a road: the contractor chosen on the basis of a public evidence bid will normally be the one, in light of assuring the transparency of the competitive tender's procedure, which will make the cheaper offer at a determined quality level. The economic factor is, of course, very consistent in a tender. But when it is related to welfare issues, it does not seem insane to prefer contractors which first aim is not the maximization of the financial gain but the achieving of social goals. It is to be noted that the majority part of services related to the welfare sphere are considered as partly non-marketable because of thin margins (except from some market niches, as for example private universities on the schooling side, or plastic surgery on the healthcare side). Both the project finance and the leasing schemes are run via competitive tender; this implies that socially aware entities have to compete with structured business subjects, with a little chance to prevail due to the ability of purely profit-driven activities to shrink profit margins. (Chauvenet & Pellini, 2011)

Moreover, most social providers would be hard-pressed to come up with sufficient capital to provide up front services and only receive payments after performance targets were met. And most social service providers would be unable to absorb the risk of failing to meet performance targets. (Liebman J. B., 2011)

Furthermore, Fondazione Cariplo believes that the welfare system that has been consolidated during last forty years is not appropriate anymore. In fact, the high level of the public debt as well as the increased competition in the international markets and the different composition of the population, are all factors that do not allow the Public Administration to sustain the same expenses than before.

Each year, indeed, governments sustain very high expenses in order to address social problems. But rarely performance are monitored and analysed; so it is impossible to understand if all these money are spent in effective programs or not. (Liebman & Sellman, 2013)

For all these reasons all the European government are defining an agenda to find innovative solutions, among which there is also the Social Impact Bond (SIB).

SIB model characteristics and its main objectives

“The Social Impact Bond model is a promising new approach that combines performance based payments and market discipline. It has the potential to improve results, overcome barriers to social innovation, and encourage investment in cost-saving preventive services” (Liebman & Sellman, 2013)

Social Impact Bonds are one of the potential financing options available to support Pay for Success (PFS) programs. In literature, often the two terms are used without any distinction but it is not correct. The Pay For Success is a general term to indicate any type of contract between a public entity and a social provider according to which the first pays the second on the basis of the achieved results. SIBs are a form of Social Innovation Financing (SIF): it is a financing approach that aims at bridging the time gap between the need of upfront capital to run the PFS programs and the payments from the Government. (Third Sector Capital partners).

For example, when the term Pay For Success was used the first time in United States, it was just a synonymous of SIB but, during time, it was more generally associated to any kind of situation in which Government payments are linked, in some manner, to the achieved results, including traditional performance contracting, where bonus payments might be available to contractors, that were known before the introduction of Social Impact Bonds. (American Progress, 2012)

The PFS model was born in order to answer to the need of achieving better results through a lower expense. In this way it is possible to direct taxpayers' money towards projects that have demonstrated to be effective. Pay For Success Financings are contracts (not necessarily a bond) that leverage private capital connecting performance outcomes to financial return, monetizing social impact of social services and realizing costs savings for government. (Non profit Finance Fund, 2014)

The effectiveness of the programmes become the main focus because, under an outcome based approach, a customer contracts and pays for business results delivered by a service provider, rather than for defined activities, tasks or assets. The contract focuses

on the desired outcome of the work to be performed (the “what”) rather than the manner in which it is to be performed (the “how”). (Corrs Chambers Westgarth, 2012)

It is also important to note that, Pay For Success is a term associated to the measurement methods. Specifically, according to a diagram (figure 5) published by the UK Cabinet Office in the SIB Knowledge Box, there are several measurement methods going between two main criteria of measurement: Pay For Success and Pay For Performance.

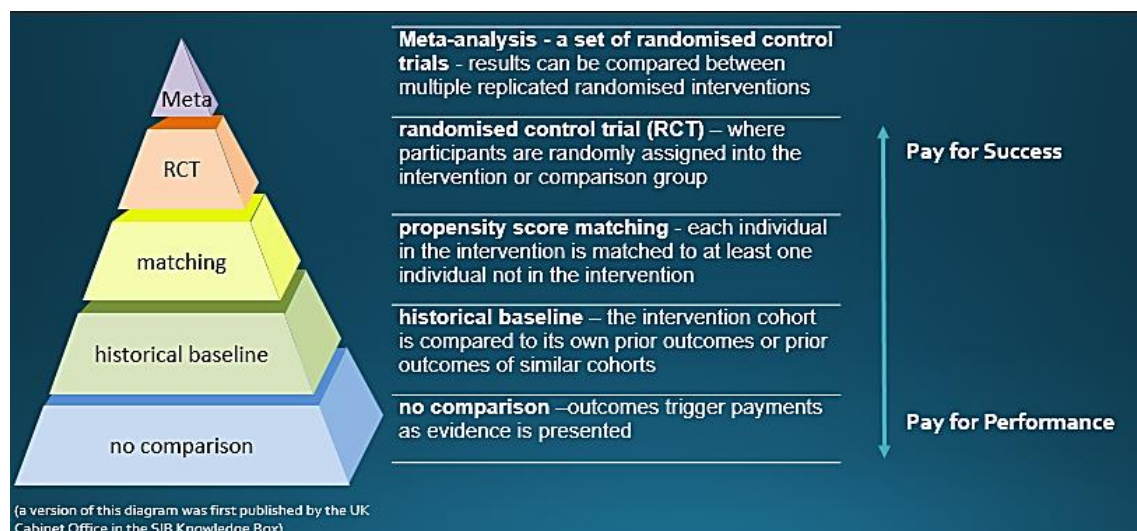


Figure 5: Measurement methods; Source: Emma Tomkinson article, 2014

Following the first criteria means to pay investors comparing the results obtained by a target population with a control group ones, while following the second means to pay according to the level of achieved performance (having a minimum target performance established from the beginning). Social Impact Bonds may use both the measurement methods, as it is possible to see analysing the cases in the world. (Tomkinson, Social Impact Bonds and Pay for Success – are they synonyms?, 2014)

Definition

Social Impacts Bond represents one component of the rapidly growing field of innovative finance, that aims at helping public entities to fund critical social projects. (Rockefeller Foundation). It is a totally innovative tool to fund welfare-related services and a new funding mechanism to invest in social outcomes. Its design is very recent

(2008) and can be attributed to Peter Wheeler of the Young Foundation; Social Finance was the first entity to implement it, in collaboration with the English Labour Government, in early 2010. (Chauvenet & Pellini, 2011)

It represents an innovative type of outcome-based contract between the private and the public sector in which public sector commissioners commit to pay for significant improvement in social outcomes for a defined population. (Social Finance, 2014) Through this scheme, Government has not to pay upfront for a prescribed set of services and can focus on programs that really work, paying only if the agreed-upon outcomes are achieved. (American Progress, 2012) Furthermore, the focus is not anymore on inputs (e.g. number of doctors) or outputs (e.g. number of operations) but it is on measurable and predetermined social outcomes. (Gov.UK, 2013) Governments can agree with the other actors to buy specific social outcomes and not specific activities. (TaskForce, 2014)

How it works

As already anticipated, SIB scheme is a financial model based on the Pay For Success mechanism, in which investors pay for a set of programmes to improve a social outcome that is of financial and social interest to a government commissioner. (Social Finance, 2014) This prospective income is used to attract the necessary funds from commercial, public or social investors to offset the costs of the activity that will achieve those better results. In fact, unlike other private-public partnership schemes, such as project finance or leasing in *costruendo*, under this investment scheme the core capital is raised both from private profit-driven investors and also from philanthropic socially-aware subjects, whose specific aim is to achieve social change. (Chauvenet & Pellini, 2011) If the social outcome improves, the government commissioner repays the investors for their initial investment plus a return for the financial risks they took. (Social Finance, 2014)

Therefore the government must be willing to make payments that cover the full costs of delivering the services plus the investors' required rate of return, including sufficient compensation for the risk that performance targets may not be met. What the government gets in return is improved outcomes. In some cases, improved outcomes may result in cost savings for the government that offset some or all of the expense of

delivering the services. In the Peterborough Prison case study, discussed below, the U.K. government anticipates that savings on incarceration costs could ultimately pay for the anti-recidivism services being delivered . But even when the government does not achieve cost savings, taxpayers will still benefit from the improved outcomes that result from spending less on approaches that are ineffective and more on approaches that are successful. (Liebman J. B., 2011)

Some social impact bond proposals suggest that programs could be financed with no net cost to the government if payments are made to investors only to the extent that the programs reduce costs to the government. A job training program, for example, if successful, will bring participants to increase their income. The public entity will achieve, not only this social outcome, but also a financial one: if people's earnings increase they will pay more taxes (income for the Government) and will need less welfare services (savings for the Government). Using these savings and income, the public entity can pay back investors. A health intervention, similarly, could generate significant savings to the government from reduced Medicare or Medicaid spending. While these are compelling examples, it's important to emphasize that the set of interventions that result in enough government savings to cover program costs is much smaller than the set of interventions with positive social net benefits. In many cases, the main beneficiaries of a social program are the program participants, who benefit from higher earnings, better health, and so forth. Savings to the government are often smaller than the direct benefits to program participants. Moreover, savings to the government can be a poor proxy for social benefits. (Roman, 2013)

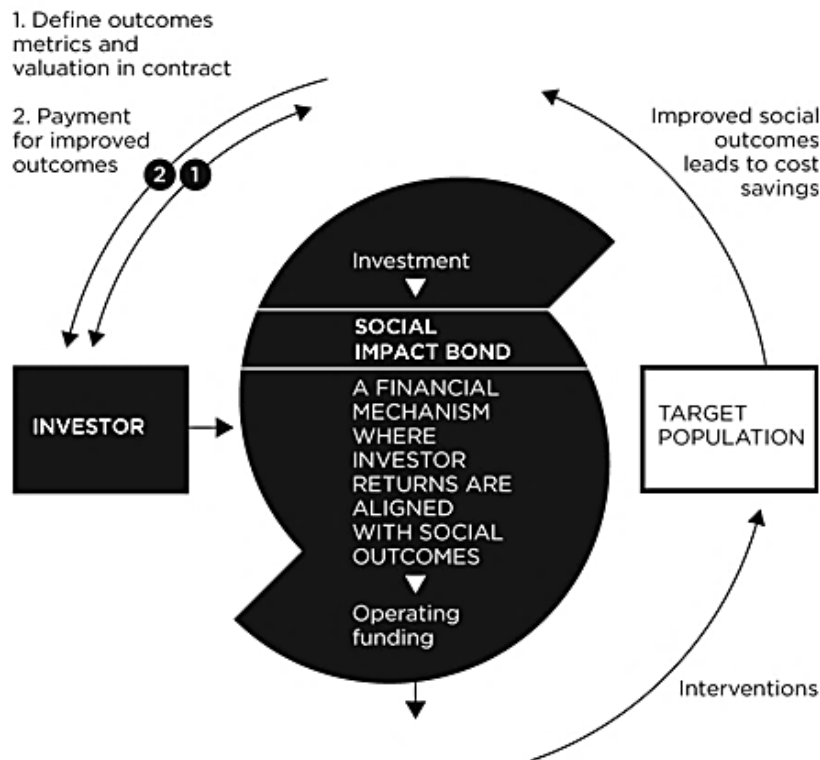


Figure 6: SIB scheme; source: Social Finance website

The fundamental points characterizing the SIB model (that will be deeply discussed later in this document) are:

- Pay Per Success mechanism: investors are paid back only if predetermined objectives are achieved;
- Preventive nature of the implemented programs;
- The entity that pay back the investors is the central or local Government, using the savings obtained by reaching the established social aims; in such a way the Government has not to provide the capital upfront and the entire risk is transferred to the private investors;
- The entire scheme is focused on outcomes and not on outputs: what really matters is to meet the social aims;
- Social providers, helped by the intermediaries, are pushed to be effective and innovative, in order to make the programs successful, pay back investors and, eventually, broad the programmes on a larger scale;

- The importance of the measurement methods, their transparency and fairness brings to collect and analyse data in the best way and to recognize what are the most effective projects.

The actors involved in the SIB network of relationship are:

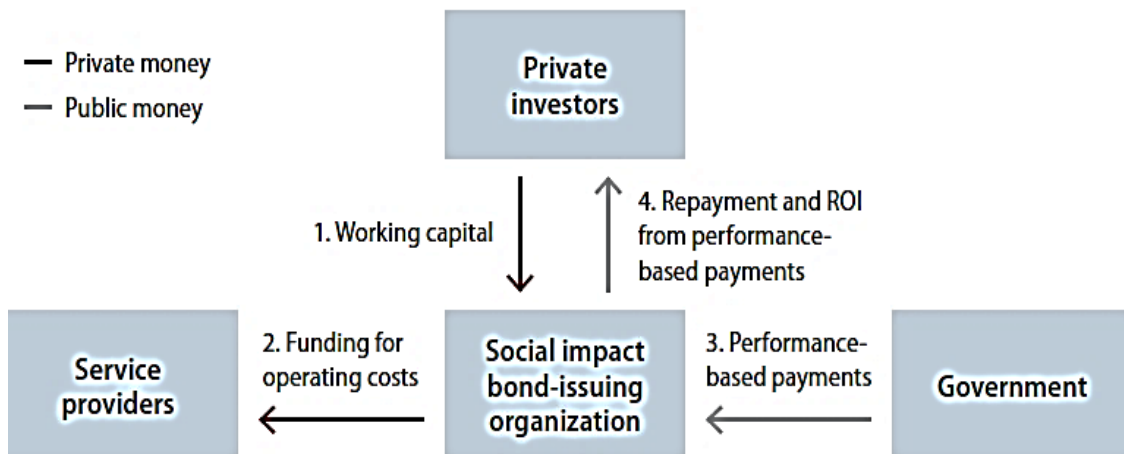


Figure 7: SIB actor network; Source: Social Finance website

- Public entity (government, region, city) that has the responsibility to pay back investors when projects succeed;
- Non-profit organizations or social enterprises, that manage social preventive programs;
- Private investors, who provide the capital needed by no profit actors to carry on their projects and who will receive a return by public entities in case of success;
- An independent entity that evaluates if the predetermined objectives are met or not at the expiration date;
- An intermediary who ease contacts among different parties and monitors programs in order to understand if objectives are going to be achieved or nor guaranteeing in this way an higher transparency. An example of intermediary is given by the British “Big Society Capital”. Its mission consists in investing in social enterprises, philanthropic institutions, volunteering organizations that have problems in gathering financings at affordable conditions. It provides greater financial solidity and stability. This operation is financially covered by withdrawal from accounts not used in the last fifteen years. (Chauvenet & Pellini, Rethinking the Public-Private Partnership, 2011)

The main objectives of the SIB model are to:

- Increase the pool of capital available to fund preventive and early interventions; (Social Finance, 2014)
- Encourage a broad diversity of service providers and collaboration between providers; (Social Finance, 2014)
- Create more market discipline and offer predictable revenue streams for service providers to enable those that are effective to thrive; (Social Finance, 2014)
- Align public sector funding more directly with improved social outcomes focusing on outcomes instead that on outputs; (Tomkinson, 2014)
- Encourage a more rigorous approach to the measurement system of the results in order to build a broader evidence base of what really works; (Social Finance, 2014)
- Accelerating the expansion of evidence-based programs delivered by effective social service providers; (Tomkinson, 2014)

SIB model funds preventative and early intervention programmes which tackle the underlying causes of specific social problems. Incentives are aligned across public sector commissioners, external investors and service providers, all of whom are acting to achieve improved social outcomes as defined in a contract. (Social Finance, 2014)

The alignment of their interests is crucial for the determination of the SIB model success because everybody can achieve their own goals only through the reaching of social outcomes. As already explained in the first paragraph, the social provider has the opportunity to exploit long term funds, to try and test new and innovative social approaches and to really help effectively the participants. The government can achieve its own social impact and, in some cases, to record financial savings. Investors can diversify their portfolio and easily find the most appropriate social provider through the intermediary (who also has the role to monitor the intermediate results and guarantee that the program is going well). (Social Finance, 2014)

Compared to traditional public funding, Social Impact Bonds may be the clue to transfer the risks and the costs of supplying welfare-related services from public bodies – which

is a goal of extreme importance also in light of the lowering of public expenses operated by Governments because of the ongoing economic crisis – to private players differing from the financial backers, so to shift the major risks to a third private party. (Bridges Ventures, 2014)

Therefore the SIB is not a bond in a strict sense. Its financial model and the type of financial flows it generates are not comparable with the ones that characterize the standard obligations (plain vanilla), with a fixed remuneration and the sure return of the nominal value of the borrowed capital at the expiration date. In fact, the SIB yield is variable just like a share prize, that theoretically changes according to the company's performances. In the SIB model the remuneration is linked to the social results achieved through the financial activity. Just like shares, they have a variable rate of return that depends on the achieved performances. Moreover, there is the risk to lose the whole capital if the objectives won't be met. (Fondazione Cariplo, 2013) If these services are successful in achieving targeted outcomes, investors are provided a financial return based on savings to government. If they are not successful, government pays nothing and investors receive nothing. (Jagelewski, 2010)

“Investors will therefore make very careful choices and select profitable social initiatives, leaving numerous others aside (representing the privatization of social services and perversion of public-private partnerships” (Mendell & Emilien, 2012)

Delivery structures

There could be identified different alternative delivery structures. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

1. Streamlined

A social provider uses its existing resources to fund a set of programs designed to achieve a specific social impact. It would have an agreement according to which it will receive determined payments if predefined outcomes (associated with lower costs for government) will be reached. If successful, the amount received from the payer would cover the costs of delivering the interventions plus an additional return. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

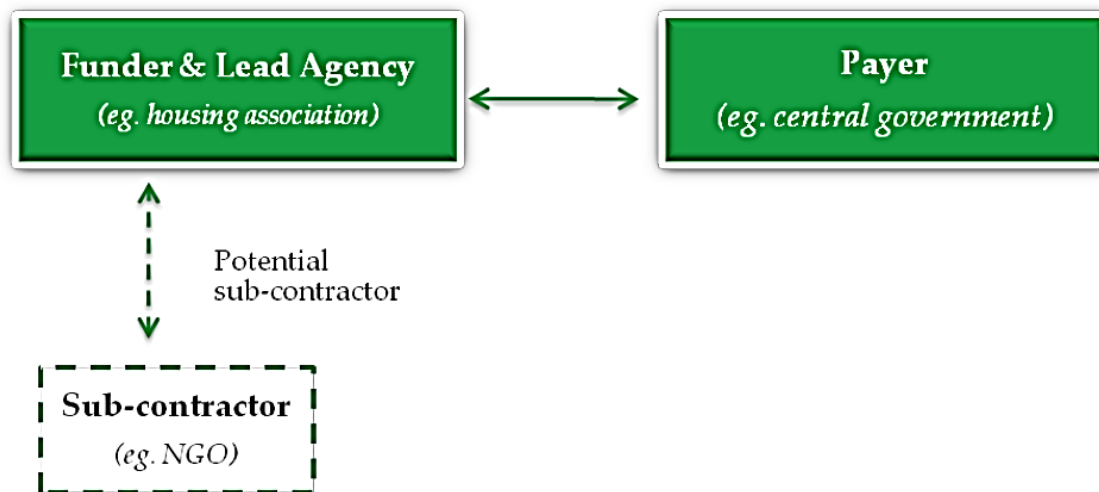


Figure 8: Streamlined delivery structure. Source: Mulgan, Reede, Aylott, Bo'sher, 2011

Case study: A housing association uses its reserves to fund an initiative working to increase participation in the workforce or in training. The initiative reduces welfare costs for the central government as more people are in work and fewer are claiming unemployment benefits. Central government agrees to make a series of payments to the housing association based on the reduction in the number of people claiming unemployment benefits. These payments will cover the cost of delivering the program as well as provide a financial return to the housing association, if the targets are met. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

Benefits	Constraints
<ul style="list-style-type: none"> • Simple model with limited stakeholders • Easy to design and implement • Low transaction costs and overheads • Suits high performing organisations confident in their ability to deliver 	<ul style="list-style-type: none"> • Lead agency must have its own reserves of funding to invest • The lead agency bears all the risk if the intervention is not successful • Lead Agency must have delivery capability

2. Lead Delivery Agency

Funds are raised from philanthropic and private sources and transferred directly to a Lead Delivery Agency, that may also be a part funder of the bond, responsible for implementing a package of interventions. The Lead Delivery Agency then implements the defined social programmes, directly or by sub-contracting to another agency. The payer would make payments directly to funders based on the impact of the interventions. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

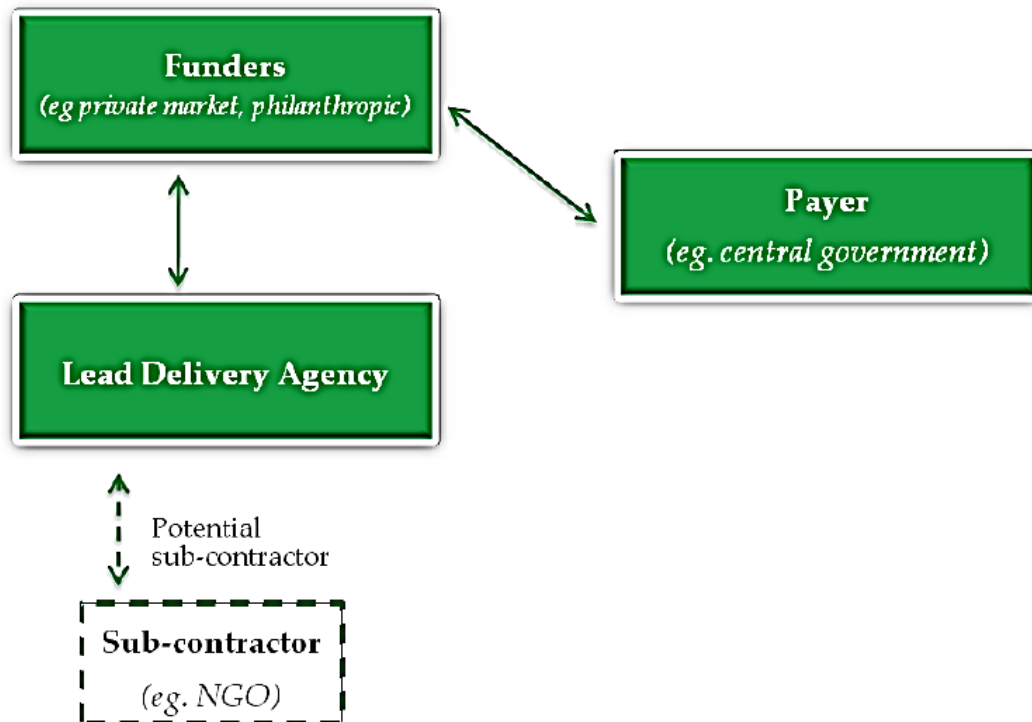


Figure 9: Lead Delivery Agency, Source: Mulgan, Reede, Aylott, Bo'sher, 2011

Case study: A local authority raises £2m of funding from a large philanthropic organisation which it then matches. This sustains a programme of work with young people at risk of becoming NEET. Central government agrees to make payments according to the numbers of young people who enter employment, education or training as compared to becoming unemployed. Payments are a proportion of national government's savings (primarily welfare benefits) and enable the original £2m loan to be repaid and deliver a return to the philanthropic organisation and local authority. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

Benefits	Constraints
<ul style="list-style-type: none"> • Risk is shared between multiple organisations • Potentially unlocks new funding streams for social interventions • Well aligned incentives if the Lead Delivery Agency is also a funder 	<ul style="list-style-type: none"> • Potential for conflicting views between Funders and Lead Delivery Agency (this may be prevented by agreeing clear protocols at the outset or by contracting with another agency to manage the programme).

3. Special Purpose Vehicle

A Special Purpose Vehicle (SPV) is a legal entity (usually a limited company) created to fulfil specific objectives. It would receive incoming investment from investors and would be responsible for ensuring the delivery of the intervention programme. It would not deliver any services itself but it would pass the funding to social providers and manage the contracts with each of them in order to monitor their performance along the entire SIB period. It would also receive payments from the payer, based on the success of the interventions, and pass these back to funders. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

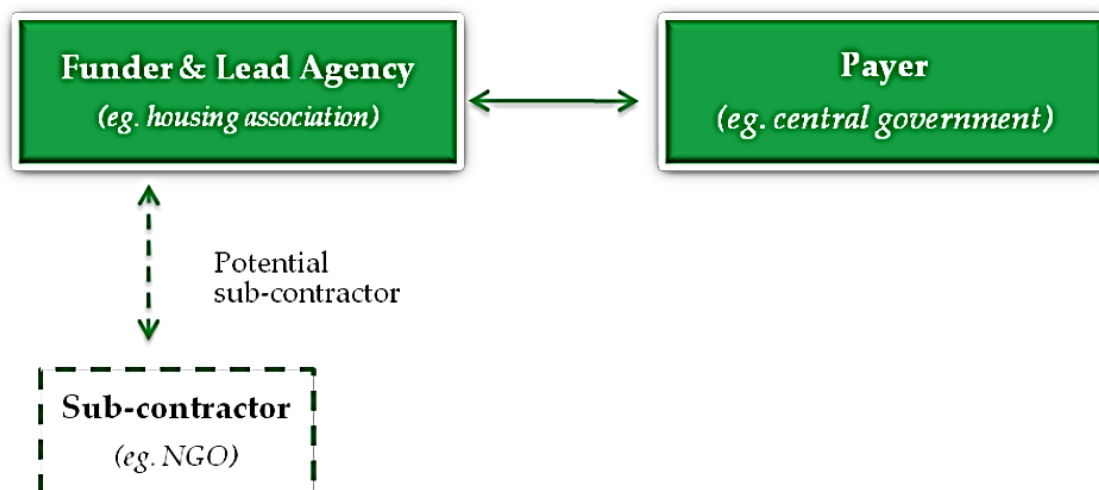


Figure 10: Streamlined delivery structure, , Source: Mulgan, Reede, Aylott, Bo'sher, 2011

Case study: A housing association uses its reserves to fund an initiative working to increase participation in the workforce or in training. The initiative reduces welfare

costs for the central government as more people are in work and fewer are claiming unemployment benefits. Central government agrees to make a series of payments to the housing association based on the reduction in the number of people claiming unemployment benefits. These payments will cover the cost of delivering the program as well as provide a financial return to the housing association, if the targets are met. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

Benefits	Constraints
<ul style="list-style-type: none"> • Simple model with limited stakeholders • Easy to design and implement • Low transaction costs and overheads • Suits high performing organisations confident in their ability to deliver 	<ul style="list-style-type: none"> • Lead agency must have its own reserves of funding to invest • The lead agency bears all the risk if the intervention is not successful • Lead Agency must have delivery capability

Types of Social Impact Bonds

In this paragraph different types of SIB will be identified according to a specific classification and some cases will be provided for each type.

1. Philanthropic Social Impact Bond

The first model raises funds from philanthropic sources; it invests them through a special purpose vehicle and involves a contract with a central or local government to repay based on achieved outcomes. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

Philanthropy has played a critical role in the nascent world of Social Impact Bonds and Pay-For-Success. Foundations can act as investors by providing credit enhancement and grants, but they can also increase demand for SIB/PFS projects. (Philanthropy New York, 2014)

To have philanthropic sources means to be able to accept an higher risk if compared with private investors, who watch out for their financial returns. This higher level of risk means also to have higher freedom in trying innovative and new programmes, testing their effects. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

An example of this type of SIB is the first one opened in USA consisting in the rehabilitation of Riker's island group of prisoners (described in detail in the third chapter). In this case the Bloomberg Philanthropies guaranteed the transaction. (Olson & Phillips)

2. Public sector Social Impact Bond

In this case, there are not private investors or philanthropic sources but the local authority would be the capital provider, while the national government would be in charge to pay back the local public entity if the predefined outcomes will be reached (associated with lower costs for national government). This type of SIB model are relatively easy to design and implement, due to the lower number of actors and the lower transaction costs; anyway they do require clear protocols on design, establishment of baselines, success measures and so on. This model is, however, more likely to suit high performing large scale and expert authorities. (Mulgan, Reede, Aylott, & Bo'sher, 2011).

3. Commercial Social Impact Bonds

This is the most common type, where capital is provided by the commercial investors. In this way a new asset class is created which can be invested in by banks, pension funds and others. As opposite to the first case, this model does not allow to face high risk rate and it is more suitable for suitable where there are proven models of intervention and reliable delivery partners with strong track records. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

As already said the most part of the existing SIBs belong to this last typology. For instance, the first and most famous SIB, born in UK and aimed at the rehabilitation of Peterborough prisoners saw the raising of £ 5 million from private investors.

The network of relationship

In this paragraph, the focus will be on the network of contracts that constitutes the SIB model. In fact, the complexity of the SIB instrument is not given by difficult algorithm that make hard to forecast the success or the failure of an investment, but by the network of relationships among the different actors who take part to the process. (Fondazione Cariplo, 2013) The SIB model is configured as an atypical contract that links a plurality of parties to reciprocal obligations. The peculiarity of SIB network is given by its fragmentation: each actor is linked directly to another one but indirectly to all the others through the other players' contracts. Better, it may be defined as a *system of single contracts* that are linked to each other. (Fondazione Cariplo, 2013)

For example, within the Riker's Island SIB, MDRC (Manpower Demonstration Research Corporation: it is a no-profit, nonpartisan education and social policy research organization that plays the role of intermediary) juggled a loan agreement with Goldman Sachs, a grant agreement with Bloomberg Philanthropies, a contract with New York City, and a contract with the Osborne Association. The entirety of the transaction consists of a complex set of contracts and agreements that, if properly executed, aligns the participants' incentives in a mutual agreement that serves the needs of all parties. Managing the multiple contracts required extensive diligence and review by legal counsel on all sides. (Olson & Phillips)

Another consequence of the multiparty nature of the SIB model is that the success of the transaction depends on all parties fulfilling their obligations throughout the duration of the various contracts. In the negotiations for the Rikers Island transaction, a number of contingencies were imagined—for example, the risk that the city would not appropriate funds for the program, or that the service providers would not implement the required intervention—and such risks were mitigated with appropriate contractual protections. Ultimately, however, the strength of the transaction did not come from the detailed contracts but from the quality, professionalism, and strong track records of all the parties to the transaction. (Olson & Phillips)

Therefore, actors are linked by a partnership, that is also contractually recognized, in which the variable “partner trust” is added to the traditional variable “financial risk”. The investor has to trust in a supplier ability to achieve a determined social result; the Public Administration has to believe that the innovative service provided has also an economic value; all the actors trust in statistical data needed to measure the performance by an independent third party; everybody trust that the others will respect the contract terms.

Bringing the example of a successful case, all three investors interviewed by Rand Europe, reported that they saw Social Finance as a trusted partner in the Peterborough SIB case; they were sure about the Social Finance experience, preparation and skills and this feeling lead them to be confident about the success of the program. (Disley, Jennifer, Scraggs, Burrowes, & Culley, 2011)

Aligning the interests of so many disparate actors is not an easy task, but part of the appeal of social impact bond lies in the benefits of getting different sectors to cooperate and work together to achieve beneficial social outcomes. When organizations are able to collaborate, it is possible to exploit the advantage of having several and different resources and expertise coming from different actors, each of them with different knowledge and background. (Fondazione Cariplo, 2013) Before contracts are signed and work begins, organizations must come together to explore what it might look like to work together. Since each institution has multiple ways in which it could participate, it is not useful to make assumptions about whether or how any one organization would want to collaborate. Taking time to get to know an organization’s mission, staff talent, available capital, appetite for risk, relationship with government, and sustainability goals can help bridge the perception gap among potential investors. (Costa & Tomasko, 2014)

Below there is a scheme about the negotiation process among the different actors in developing the contract related to the Peterborough SIB. (Disley, Jennifer, Scraggs, Burrowes, & Culley, 2011)

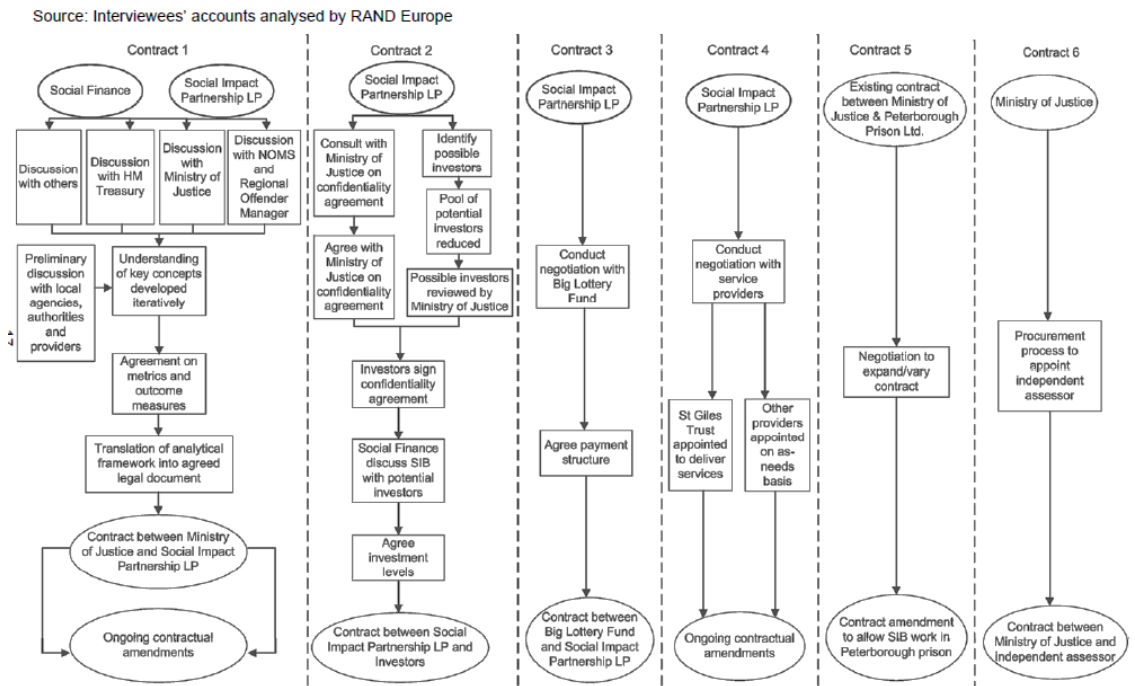


Figure 11: Negotiation process scheme, (Disley, Jennifer, Scraggs, Burrowes, & Culley, 2011)

Outcome measurement

An essential element in the SIB financing mechanism is the measurement of the created social impact and, more specifically, of the results obtained through a specific treatment for a well-defined category of people. (Fondazione Cariplo, 2013) All the SIB-financed projects incorporate a strong component of performance management. Intermediaries and service providers evaluate data on a regular basis and implement midcourse corrections when it is needed. In this way, projects can evolve and adapt in order to deliver the greatest benefits. (Hughes & Scherer, 2014)

“The most technically complex issue with SIBs is how to measure the impact fairly. Funders and Government must be confident that the metric used in an SIB has no systematic bias and is on average a fair measure of performance.” (Mulgan, Reede, Aylott, & Bo’sher, 2011)

Measuring an impact requires accurate information about what would have happened to program participants if they had not received the program’s services. (Butler, Bloom, & Timothy)

To obtain a robust measurement system is very important that measurement metrics and indicators are clearly linked to the desired outcomes. When the group of people we are evaluating are subject only to the SIB intervention it is not so difficult but, if they are affected by a range of intervention, the link is more problematic. (Mulgan, Reede, Aylott, & Bo'sher, 2011)

When measures are only weakly correlated with results aiming to reach or if, in some parts, the impact of the program cannot be measured, the performance might be distorted. (Liebman & Sellman, 2013)

As stated by the Single Market Act II, by the European Commission, *“the development of rigorous and systematic measurements of social enterprises’ impact on the community ... is essential to demonstrate that the money invested in social enterprises yields high savings and income”* (European Commission, 2012)

What would happen to those positive innovations that require more complex evaluation criteria? Geoff Mulgan (one of the early advocates of SiBs at the Young Foundation in the UK) is now critical and admits that very few non-profit organizations have programs that allow for the type of evaluation imposed by SiBs that are only valid if they can be compared to a control group. (Mendell & Emilien, 2012)

Furthermore, it should be possible to calculate the avoided costs for the public sector and so the profitability of the instrument just starting from this value. (Fondazione Cariplo, 2013)

Fondazione Cariplo identified three main steps within the results measurement process; this is the most comprehensive description of this specific process in literature. Other authors treat in their papers not the process as a whole, but just some of its points.

1. Identification of specific group within a population

Different kind of data and features can be used but, in any case, the prevalence criterion has to be adopted. This means that the group must include a high number of individuals with the problem faced by the project. To establish the numerosness of the group, the trade-off between significance of the intervention and costs of the delivered service must be considered. To make an optimal selection all the relevant data about the group

should be available and organized according to relevant indicators that well describe the analysed context. It is really important to avoid the so called “*cherry picking*”: it is the risk to select just people that it is easier to help. (Fondazione Cariplo, 2013) In order to avoid this situation usually a specific set of individuals are assigned to the service provider and the service provider is considered responsible for the outcomes of all assigned individuals, regardless of whether the individuals show up to receive services. (Liebman & Sellman, 2013)

2. Measurement of achieved results on this group (evaluation method)

The choice of the evaluation method depends on the type of result that should be achieved. In some cases the complexity of the intervention or/and of the social problem requires the measurement of more than a single impact. The definition of the most appropriate methodology for a specific program requires *ad hoc* planning and design which takes into account all the constraints and objectives. (Fondazione Cariplo, 2013)

To verify the goodness of the intervention counterfactual techniques are used. They are based on the comparison of the results obtained on a treated population and on another one (selected in order to understand what would have been the results without the intervention). (Fondazione Cariplo, 2013) Within the measurement community, usually to measure the results by comparison to a control group is related to the pay for success methodologies, in opposition to the pay for performance ones, which pay for the number of times something occurred. (Tomkinson, 2014)

Furthermore, it's important to select casually the individuals in the population. In literature there are mainly three different methodologies: experimental methods, quasi-experimental methods and non-experimental methods.

The first ones are based on the comparison between two groups, one subjected to the treatment and the other not. It is really rigorous from an analytical point of view because results are measured in an objective way on a real group of control. Anyway, these methods need expensive measurement processes and reliable data not always available.

The second ones use a statistical group of control, created aggregating subjects with features similar to the ones of the treated group. In this way the reliability of the results is not that high but statistical and political problems in dividing the groups are avoided.

The third ones are based on the comparison with historical or forecasted data related to the same individual of the treatment group or other similar subjects. In this case large

data are needed but the level of precision is lower; in fact these evaluations are based on experts opinions and are referred to non-quantifiable indicators. (Fondazione Cariplo, 2013)

3. Estimation of the economic value in monetary terms (financial method)

This estimation of the economic value is really complex. The social cost of the problem that is going to be treated has to be estimated and this value must be linked to the outcomes of the program.

Social investors may use performance management techniques to make sure projects are rigorously managed according to strong social values. This may include:

- a rigorous data collection system
- basing decisions on data
- tracking and reporting impact
- detailed periodic financial and performance reporting
- If providers are not achieving outcomes, there are several potential ways commissioners can intervene:
- providing training and support to help the provider develop their skills and systems
- redistributing the workload to share with another provider
- replacing providers if outcomes aren't being achieved (depending on the terms of the contract). (Fondazione Cariplo, 2013)

Furthermore, it is crucial to carry on a *monitoring process* to understand if the intermediate results are positive or if corrective actions are required.

During the Peterborough SIB case, investors and representatives from NOMS (National Offender Management Service), implemented the following arrangements for regular reporting and contact between Social Finance and the key stakeholders: (Disley, Jennifer, Scraggs, Burrowes, & Culley, 2011)

- The Ministry of Justice has regular meetings with Social Finance and will receive updates about the intervention.
- Similarly, the Big Lottery Fund receives updates from Social Finance.

- There is a SIB governance/advisory group that advises Social Finance on the delivery of the service. The advisory group includes a former chief constable, a magistrate and individuals with financial expertise. The advisory group is independent from the Ministry of Justice.
- Social Finance has regular meetings with NOMS East of England representatives and the prison Controller (who is employed by the Ministry of Justice); as well as regular joint meetings between the Prison director, HMP Peterborough resettlement managers and St Giles Trust staff; and multi-agency meetings with local providers. The Social Finance Reducing Reoffending Director is a guest member of the Cambridgeshire local criminal justice board and a member of the Safer Peterborough Community Safety Partnership.
- Investors receive quarterly updates on progress, engagement and key activities. (Disley, Jennifer, Scraggs, Burrowes, & Culley, 2011)

The Ministry of Justice, Procurement and Legal teams will monitor the contract, and make amendments if necessary, in consultation with Social Finance. There is also a *SIB Data Management Group* attended by Social Finance, representatives from Ministry of Justice Analytical Services and Procurement, as well as by the independent assessor. This group deals with any issues arising around collection and recording of management data and how this relates to outcome measures or cohort definitions. This group has already agreed upon a number of proposed contractual clarifications or amendments which aim to ensure that the contracts describe accurately and precisely the data that will be extracted from recording systems in calculating outcomes. The need for such a group to resolve these measurement issues, and ensure that these arrangements are accurately reflected in the contracts, may be a learning point for future SIBs. (Disley, Jennifer, Scraggs, Burrowes, & Culley, 2011)

Barriers to the innovation of the traditional approach and how the SIB model can overcome them

The current funding mechanism (like grants and spot donations) inhibits innovation because it is difficult to test and track new innovative methods if they are applied only in the short term; moreover, the public sector does not take the risk to try something

totally new and tend to replicate what it was done in the past. (Liebman & Sellman, 2013) The recent recession has forced many governments to make tough spending cuts, often sacrificing investments in programs that produce long-term results to ensure sufficient funds for short-term needs. (Hughes & Scherer, 2014)

Moreover, governments are focused on inputs: they fund organizations to deliver a set of services without any attention on the outcomes.

Results are not measured, analysed or compared; through this approach it is impossible to understand if a specific program works or not, or which program results the most effective.

Furthermore, governments prepare their social programs budgets looking at the previous year with small adjustments due to the inflation; often they reassign a specific program to the same social provider year after year. (Liebman & Sellman, 2013) Public agencies face severe budgetary pressure often are caught in a vicious cycle: they must spend money on prisons, shelters, public assistance and other services, leaving less for programs that might reduce the need for such spending in the first place. (Butler, Bloom, & Timothy)

Public Administrations do not take the risk to try new and innovative methods and assess their results, having fear of the public scrutiny. It is also relevant that, currently, the time horizon associated to the funding of social projects is too short due to the political turnover, to the emerging of new priorities, to the fiscal situation that does not allow to allocate consistent funds, even when those investments can deliver large savings in future budgets (Liebman & Sellman, 2013)

This type of situation, described by Liebman looking at the USA, is common to many Countries all over the world, in USA as well as in Europe (Social Finance, 2014), even in Italy. (Fondazione Cariplo, 2013) Social Finance, in fact, recognize that, governments around the world:

- find it hard to invest in prevention because they still need to pay the bill if the intervention goes wrong;
- do not have a complete data base that can help in understanding the results and finding the most effective solutions;
- pay social providers focusing on inputs and not on outputs. (Social Finance, 2014)

Also according to Fondazione Cariplo, whose papers are mostly focused on Italy, the administrations, national and local, are reluctant to adopt innovative solutions and show systematically the tendency to look at the past. (Fondazione Cariplo, 2013)

Summing up, the barriers to the innovation of the traditional approach of the government funding of social programs are:

- Government funding is insufficiently focused on results and performance
- Inadequate performance evaluation allows ineffective programs to persist
- The proof-of-concept process for social innovations is slow
- Innovation is risky and public officials are wary of failure
- Preventive programs often don't get funded out of the budgets they help reduce
- Performance-based funding requires upfront investments and the ability to absorb risk.

(Liebman J. B., 2011)

SIB model could overcome many of the above barriers to social innovation.

The SIB approach, in fact, is extremely focused on outcomes: government agencies and social service providers strive to achieve the outcome targets in a transparent way, because their compensation depends on their performances. (Finance for Good) As a consequence, the measurement of the performance, as already highlighted in this document, represents a crucial element: to make investors trust the SIB system and considering that their return is based on the achieved outcomes, it is fundamental to measure them correctly. (Cabinet Office of UK Government, 2013) Moreover, having reliable data about the results of the social programs, allow to implement and scale up the best ones and improve or eliminate the weaker ones. Besides this, this model sees the payments by government only if programs are successful, transferring the whole risk from the public to the private sector, government funders will be more willing to commit resources to approaches that are promising but not yet fully proven. In this way government has not to provide upfront investments, provided by investors in a market-based approach. (Liebman J. B., 2011)

Indeed, the use of performance based payments to social service providers is expanding. For example, cities such as New York, Milwaukee, and San Diego pay employment service providers based on their success in moving welfare recipients to employment,

with payment schedules based both on rates of initial job placement and on whether the former welfare recipients are still employed at milestones such as three and six months. The Social Security Administration's Ticket to Work program makes payments to providers of vocational rehabilitation services based on their success in achieving earnings levels that are sufficient for their clients to leave the disability benefit rolls. (Liebman, 2011)

Main criteria to determine whether the SIB model is feasible

In this paragraph it will be underlined that SIB cannot substitute traditional and consolidated methods to finance social projects but they are a new option that can be added to the existing ones (Gurciullo & Damiano). Social Impact Bonds will not apply in all circumstances. In many areas, traditional funding streams will remain the most appropriate. To determine whether a SIB could apply to tackling a specific social problem, a number of factors must be considered:

- The interventions must have sufficiently high net benefits
- The interventions must have measurable outcomes
- The treatment population must be well-defined up front
- Impact assessments must be credible
- Unsuccessful performance must not result in excessive harm
- High success probability
- Scalability
- Public administration determined to use long term innovative instruments

One of the most important criteria that a set of interventions must satisfy to result eligible for the SIB model, is given by the net benefits it should produce. (Liebman J. B., 2011) It is worth to remark that we are considering the *net benefits* because there are implementation and transactions costs that have to be taken into account. (Hughes & Scherer, 2014) SIB projects can work only if they are able to produce a combination of social benefits and monetizable savings such that both taxpayers and investors will benefit from them. (Liebman & Sellman, 2013) That is why SIBs have generally been focused in this third sector, where there are direct and cashable savings. (Bloomgarden, Eddy, & Levey, 2014)

As deeply explained in the “outcome measurement” paragraph, the possibility to obtain accurate and reliable measurements of partial and final performances is a fundamental element to effectively use the SIB scheme in the implementation of determined social programmes. (Mulgan, Reede, Aylott, & Bo’sher, 2011) The reliability of the measurement system allows to modify the project parameters if partial results are not satisfying; to understand what are the most effective initiatives trying the more innovative ones; to increase the transparency of the system for investors: they take the whole risk and will be rewarded according the performance so it is strongly needed that they are measured correctly. (Hughes & Scherer, 2014) But to evaluate the success of a program, it is not only important to measure outcomes, but also to have a way of assessing what the outcomes would have been in the absence of the program, in order to demonstrate efficiently its validity. There is a range of methods for assessing impacts, from randomized experiments to quasi-experimental techniques to simple “before and after” comparisons. (Liebman J. B., 2011)

Another criteria that has to be satisfied is related to the possibility to clearly define the treatment population in order to make it easier to evaluate program impacts and negotiate a performance based. The target population should be easily identifiable and accessible for intervention; also its size is important: small enough to make the intervention realizable and big enough to obtain statistically valuable results. (So & Jagelewsk, 2013) The U.K. pilot provides a good example. The treatment population in that case is all prisoners in Peterborough Prison, not just the subset that receives services from the service provider. *“Defining the population upfront and independent of service delivery avoids cream-skimming and gives the bondholders the proper incentive to marshal whatever combination of services is necessary to achieve good results for the entire targeted population.”* (Liebman J. B., 2011)

Furthermore it is necessary to consider the failure scenario and to establish that unsuccessful performance must not result in excessive harm, both for bondholders and the treated population. Therefore, all social impact bond contracts should include contingency planning for performance and financing failures in order to protect investors interests, who could have an incentive to shut down operations if it becomes clear they will not meet performance targets, and the people subjected to the intervention, who could respond negatively to the shut-down of the operations.

(Liebman J. B., 2011) Nevertheless, being a so innovative instrument, it is better to implement the SIB model to projects that clearly show an high probability of success, in order to win the scepticism of investors. (Gurciullo & Damiano)

Another peculiarity of this instrument is given by the long term adopted perspective. So it is really important that the Public Administration is willing to face social problems using long term and innovative financial instruments like SIB without being linked to the political cycle. Often there are fixed costs that cannot be eliminated in the short term and that make more difficult for the PA to find available resources. (Fondazione Cariplo, 2013) The potentiality of the SIB model is also to offer scalable projects that can be extended thank to the introduction of new resources. So it is very important that the politicians show commitment and continuity in realizing SIB interventions. (Gurciullo & Damiano)

SIB model benefits

At this point, it is useful to make a deep analysis about the advantages offered by the SIB model, classifying them according to the different actors that take part to the scheme.

National or local government

The advantage related to the Governments is given mainly by the transfer of risk from the public to the private sector (Liebman J. B., 2011); taxpayers would not sustain any upfront investment and would not take any risk adopting innovative programmes. (Liebman & Sellman, 2013) So the Public Administration has no high initial costs and the only burden is given by the immobilization during the period of the project of the amount that will be needed to pay investors; the social service suppliers are paid even if the targeted results won't be achieved; the neutral authority that measures the performances are always paid; the intermediary retains the commissions to cover the sustained costs from the raised capital. So the whole risk is assumed just by the investors. (Fondazione Cariplo, 2013)

The outcome based approach give to the public sector the possibility to pay only if the project has worked, reaching the desired social outcomes. Furthermore, achieving

objectives in this scheme may be related to obtainment of savings for the government, that will be used to pay back the investors if objectives would be met. (Social Finance, 2014) Besides the economic aspect, there is the advantage coming from the social one. The SIB model allows to implement more innovative, long term, preventive social programmes, whose effectiveness would be measured and monitored in order to achieve the highest social impact possible.

Because they focus on results, SIBs are not prescriptive and they allow an high flexibility in service provision and a more comprehensive approach to complex problems. In fact, an intermediary may coordinate multiple services for clients in order to meet their needs and achieve target outcomes. It is worth to emphasize the importance of the preventive: the SIB scheme has the potential to tackle the root causes of a specific problem rather than just treating its symptom (Hughes & Scherer, 2014) For example, helping a child in order to prevent him going into care means, from the economic point of view, to save money immediately (because it is really expensive to have a child into care) and, from the social point of view, to avoid him a trauma to be separated from his family and to give him a real opportunity of a better future (something that it is difficult to offer through the current system of house families). Besides this, these social results, in the long term, will bring to save public money again because, if that child would grow up, study and find a job, instead of “take the wrong way”, the Public Administration will not sustain many different expenses, like all the NEET (not employed, in education or training) costs, and will take advantage of a productive taxpayer citizen. This virtuous cycle can starts only if the social programmes are preventive. That is why the prevention focus that characterize the SIB model is so a great advantage.

Social service providers

Social providers are attracted by this approach because it allows to benefit of long term funding. (Liebman & Sellman, 2013) It is a very important for these kind of organizations because, in order to actually achieve results in the social sector, multi-years programmes are needed and traditional funding methods, like grants and donations, do not permit their implementation. (Fondazione Cariplo, 2013) So the stable funding provided under the SIB represents an advantage in terms of organisational sustainability and less disrupted service provision. (Disley, Jennifer, Scraggs, Burrowes, & Culley, 2011).

More specifically, the work of the Early Action Taskforce (EAF) has championed and gained national recognition for prevention, including publishing research into the barriers preventing it from happening. They identified six barriers in *The Deciding Time*:

- short term approach: to implement preventive programmes it is necessary to adopt multi-years initiatives that would be able to help during a considerable period of time the treated population, reaching the desired results;
- working in silos: sometime in order to help, particularly in a preventive approach, a target group different type of interventions are needed at the same time; to work in silos makes it difficult the collaboration among different service providers;
- unaffordable of the critical shift to earlier action: preventive programs are expensive, particularly at the beginning when high upfront investments are required;
- not to know what works on the ground: the lack of an appropriate measurement system makes it difficult to understand the level of effectiveness of the implemented programs;
- lack of skills: in many cases to act in a preventive way on a social problem requires to integrate different knowledge and skills that may come only from the collaboration among different actors;
- lack the leadership and accountability structures (Social Finance, 2014)

Furthermore, the accurate and transparent measurement system allows social purpose organizations to build a consistent database about the effectiveness of the projects, comparing and analysing partial and final results, in order to accelerate the learning process and to adopt the best solution project after project. (Bertha Center; Social Finance; G:enesis, 2014)

Commercial investors

Investors advantages come from the opportunity to get involved in a promising new market, providing growth capital to social service providers. (Liebman & Sellman, 2013) The SIB provides them a possible way to obtain a 'blended return', that is, a financial return on investment that may not be as high as their other highest possible

returns, but one which allows them to fulfil their charitable mission and invest capital in an area that fits with their specific interests at the same time. (Disley, Jennifer, Scraggs, Burrowes, & Culley, 2011). Through SIBs, investors have the possibility to recycle their capital investing in outcomes related to important social issues (Bertha Center; Social Finance; G:enesis, 2014) and to diversify their investment portfolio. (Milken Institute, 2013)

Potential drawbacks in the SIB model

As already said, the SIB model is a very new and innovative tool and may presents some drawbacks for the different actors participating in the scheme.

Social service providers

This model brings to increase pressure on non-profit organizations that already bear large responsibilities and commitments. In fact, SIBs will mostly be applied to activities deemed less risky and with a high probability of achieving positive results. If those social purpose organizations cannot deliver these results in an environment of disengagement by government, they will neither be attractive to investors nor will they be assured of ongoing public support. Even with a clearly positive impact, it is very possible that at the end of the predetermined time period, a non-profit organization may not yet have reached the required social results. There is the risk of not properly consider that the impact of educational initiatives or of rehabilitation or reinsertion into society, to name only a few important examples, often appears only in the long-term and cannot be tied to a time horizon set by financial markets. (Mendell & Emilien, 2012)

Commercial investors

Because the bond issuer spreads the risk across its bond holders, it will be substantially more risk tolerant than would be a non-profit service provider in a direct performance contract. Nonetheless, investors will require compensation for taking on risk. (Liebman J. B., 2011) As already said, the investors represents the only actor in the SIB system that face the entire risk of the process. The “trust” element comes again to be fundamental: the whole system is based on the reputation lever that brings all the actors to work at their best in order to meet the established results and avoid the failure with all its negative effects.

This importance of this critical point is confirmed by the fact that in some cases, public funds or foundations have allocated block grant to guarantee the investment. (Fondazione Cariplo, 2013)

Social investors may want some influence over the way the project is delivered, given that they are taking much of the risk. This can be achieved in a number of ways, like:

- buying a share in the provider organisation and/or taking a seat on the board
- attaching a number of conditions to an investment, such as rights to take control of or terminate the project in the event of sustained under-performance
- engaging an intermediary to manage provider performance throughout the contract (Liebman J. B., 2011)

Higher is the uncertainty and complexity of the program, higher will be the risk faced by the investor and their required return, higher the total cost of the whole operation. That is why it is important that, at least at the beginning, investors are more interested in the social results than in the financial one. (Fondazione Cariplo, 2013)

Public Administrations

The transaction and implementation costs that have to be sustained using SIB are higher than the costs the PA would sustain assigning directly a project to a private entity. It is fundamental that savings obtained are higher than the total cost of the provided service. (Fondazione Cariplo, 2013)

It is necessary to take into account that outcome payments have to be shared properly across the central and local government departments and agencies that accrue savings. (Disley, Jennifer, Scraggs, Burrowes, & Culley, 2011)

These systems create strong incentives to *manipulate outcomes measures* or to focus excessively on those aspects of performance that are rewarded in the incentive-payment system. When outcomes are partly determined by a service provider's effort and partly determined by factors beyond the service provider's control, optimal contracts generally involve a fixed or cost-based payment component, and a performance-related component. In a social impact bond scenario, performance risk is borne mostly by the bond issuing organization, rather than by the service provider. (Liebman J. B., 2011)

SIB global experiences

In this third chapter, an updated map of the SIB worldwide is provided and the most important cases of SIB in different Countries are analysed in detail.

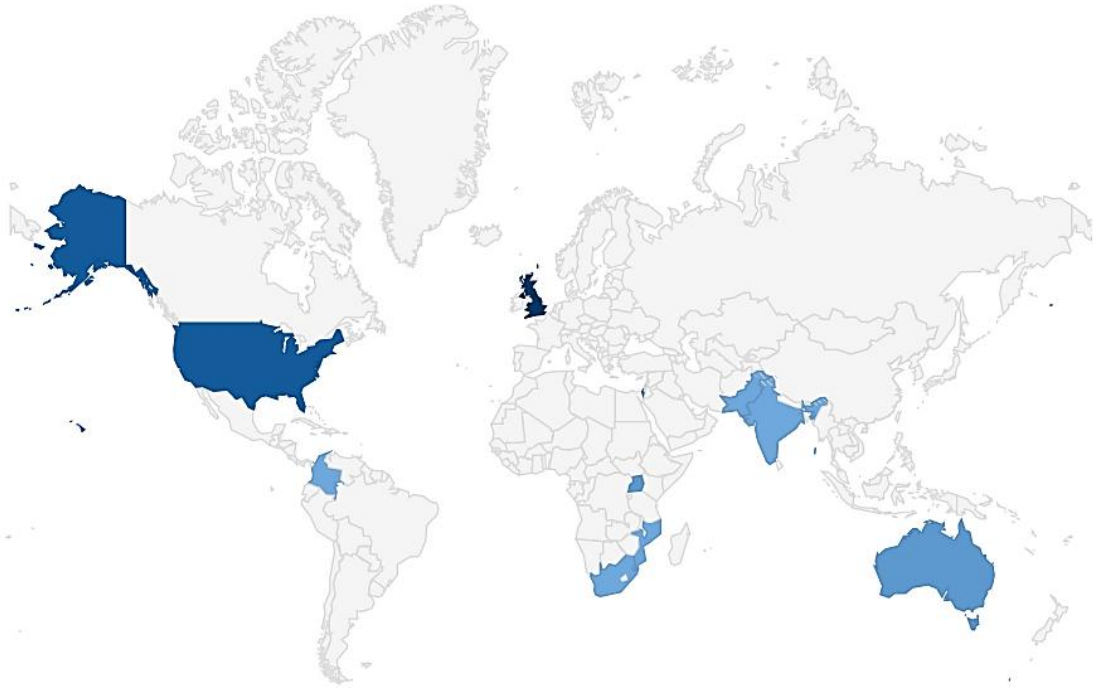


Figure 12: SIB world map. Source: Instiglio

Instiglio provides an always updated table that summarize the current situation of Social Impact Bond highlighting the stage in which they are, the location, the social issue, the contract duration, the outcome payment and the needed and raised investment. (Instiglio, 2014) There are other SIB world map provided by the UK Cabinet Office (Social Finance, 2014), or by some researchers' blogs, like the Emma Tomkinson one that have been used to build the tables below. (Tomkinson, 2014) Finally some of the information listed in the tables come from the many different papers published about the specific cases.

Country	Number of SIBs in design stage	Number of SIBs in implementation stage
UK	12	4
USA	6	3
Australia	2	1
Uganda	2	0
Israel	4	0
India	1	0

Pakistan	1	0
Swaziland	1	0
Mozambique	1	0
Colombia	1	0
South Africa	1	0
Canada	0	1
Germany	0	1
Belgium	0	1
Netherlands	0	1

Furthermore, UK is going to launch the first Development Impact Bond. Development impact bonds are an adaptation of social impact bonds, a type of payment-by-results agreement where investors put money into an organisation to pay for an intervention, and are repaid at a profit by funders if the intervention proves successful.

The main additional characteristic of development impact bonds is that in countries whose governments cannot yet afford the full cost of additional public services, donors provide some or all of the repayment to investors when the results are proven. (Eccles, 2014)

Stage	Country and location	Social Issue	Contract Duration	Outcome Payments(USD millions)	Needed or raised investment (USD million)	Participants
Design	Australia, New South Wales	Intensive Family Support Services	5 years		9.2 (10 AUS)	
Implementation	Australia, New South Wales	New Parent and Infant Family Support	7 years	7+ (7.6+ AUS)	6.4 (7 AUS)	
Design	Australia, New south Wales	Recidivism	6 years		6.4 (7 AUS)	
Design	Canada, Saskatchewan	Single mothers				
Design	Colombia, Medellin	Teenage Pregnancy	4-5 years			
Design	India, Rajasthan	Education				
Design	Israel	Workforce development for ultraorthodox Jews				
Design	Israel	Workforce development for Arab citizens of Israel				
Design	Israel	Recidivism				
Design	Mozambique	Malaria			25-30	
Design	Pakistan, Punjab	Primary education			25	
Design	Swaziland	Prevention of HIV and TB	3 years		10	
Design	Uganda	Sleeping sickness	8 years		20-30	

Design	Uganda	Secondary education	10 years		35 (23 GBP)	
Implementation	UK, Peterborough	Recidivism	8 years	12.2 (8 GBP)	7.6 (5 GBP)	-UK Ministry of Justice and Big Lottery Fund -Social Finance -One service (that contacted 4 social organizations)
Design	UK, Essex County	Foster care	5 years	10.06	4.7 (3.1 GBP)	
Design	UK, Greater Merseyside	Workforce development	3 years	6.8 (4.5 GBP)	3 (2 GBP)	
Design	UK, Shoreditch, London	Workforce development	3 years	4.9 (3.2 GBP)	1.4 (0.9 GBP)	
Design	UK, Stratford, Canning Town, Royal Docks (Newham), Cathall (Waltham Forest)	Workforce development	3 years	2.0 (1.3 GBP)	4.9 (3.3 GBP)	
Implementation	UK, West Midlands (Birmingham)	Workforce development	3 years	5.0 (3.3 GBP)		
Design	UK, Nottingham City	Workforce development	3 years	4.4 (2.9 GBP)		
Design	UK, Perthshire and Kinross, Scotland	Workforce development	3 years	1.8 (1.2 GBP)		
Design	UK, West (Brent, Ealing, Hammersmith & Fulham, Hounslow, Westminster, and Haringey) London	Workforce development	3 years	4.6 (3.0 GBP)		
Design	UK, Cardiff and	Workforce	3 years	3.0 (2.0 GBP)		

	Newport	development				
Implementation	UK, Greater Manchester (Manchester, Salford, Bolton, Oldham, Tameside)	Workforce development	3 years	5.0 (3.3 GBP)		
Design	UK, Thames Valley	Workforce development	3 years	5.6 (3.7 GBP)		
Implementation	UK, London	Homelessness	4 years	7.6 (5 GBP)	8 (5 GBP)	
Design	UK, Wales	Foster care				
Design	UK, Cornwall	Aging in place				
Design	UK, Country-wide	Adoption	10 years		3 (2 GBP)	
Design	US, Illinois					
Implementation	US, Massachusetts	Recidivism	7 years	27	18\$	
Implementation	US, New York City	Recidivism	4 years	02.01	9.6 \$	
Implementation	US, New York State	Employment for formerly incarcerated individuals	5.5 years	21.05	13.05\$	<ul style="list-style-type: none"> - The Mayor's Office and The Department of Corrections ("DOC") - MDRC - Goldman Sachs -Bloomberg Philanthropies -The Osborne Association and Friends of Island Academy (service providers) - The Vera Institute of Justice (independent evaluator)
Design	US, National	Workforce development		20		
Design	US, Massachusetts	Homelessness	3 years	25		
Design	US, Salt Lake City	Early Childhood Development	1 year		7	

Design	US, California	Asthma Management				
Design	South Africa, Cape Town	Criminal justice				
Design	US, South Carolina	Neonatal care (Nurse Family Partnership)				
Implementation	Germany, Bavaria	Unemployment (NEET)				
Implementation	Belgium Brussels	Unemployment for young migrants				
Implementation	Netherlands, Rotterdam	Unemployment (NEETS 17-27 years old)				

In the last years, since the first SIB was launched by Social Finance in 2010, targeted at reducing reoffending rates among ex-offenders leaving Peterborough prison in the UK, interest has grown in developing new investment approaches to social problems. (Loder, 2011) More than twenty SIBs, raising in total approximately US\$100 million, have been launched globally. (Bertha Center; Social Finance; G:enesis, 2014)

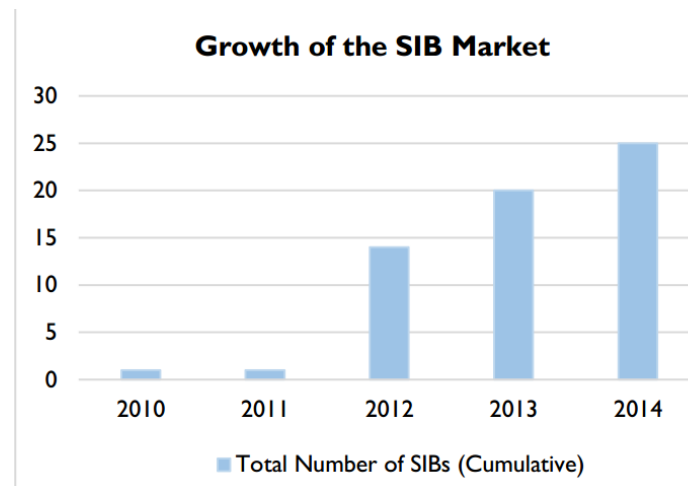


Figure 13: SIB market growth. Source: Social Finance paper, The global social impact bond market

The invested capital until now is not so consistent but there are enormous potentialities, given that the SIB model comprises four important parts: public entities, finance experts (intermediaries), social purpose organizations, private investors. (Il sole 24 ore, 2014). A number of countries have moved ahead with the development and implementation of a variety of SIBs, setting aside a significant funding. (Deloitte) The £60 million of funding allocated by the UK Cabinet Office and Big Lottery Fund or the proposed US\$300 million allocation in the White House FY2014 budget are representative data of the Countries' interest in the Social Impact Bond model. In turn, a growing number of organisations are involved in developing SIB policy and transactions, including the Taskforce on Social Impact Investment established following the G8 Social Impact Investment Forum in June 2013, the UK's Centre for SIBs and the US' Harvard Kennedy School SIB Lab. As the market has expanded, the application of SIBs has spread to issues that range from homelessness to early childhood education and grown to as large as a US\$27 million² capital raise for a single SIB. (Bertha Center; Social Finance; G:enesis, 2014)

We are going to investigate these experiences clustering them in some categories according to the type social issue the SIBs aim to tackle.

Criminal Justice

The rehabilitation of offenders is a cornerstone of the government's criminal justice policy. Successful rehabilitation will deliver benefits to society and reduce public spending on the prison system. (Social Finance, 2014) As the former Chief Inspector of Prisons, Dame Anne Owers observed, *"We know that prisons have revolving doors and the reason is because the problems that people had before they went to prison are the same problems they encounter after they leave prison. If you don't deal with the before and the after, then all you create is a circle."* (Bolton, 2010)

The rehabilitation of prisoners can be considered a very good sector for the application of the SIB model. In fact:

- it involves preventive programmes: the aim is to prevent prisoners to offend again;
- if successful, it has the potentialities to produce savings for the government, that would not sustain the cost of those ex-prisoners;
- it address deep-seated social issues : in fact, the rate of recidivism is currently very high and, in order to be reduced, it requires long lasting programmes, investments and commitment that the SIB tool is able to provide;
- it is a project that can be easily applied on a larger scale: if successful the savings will increase because of the huge decreasing of prisoners that will lead to diminish the number of expensive prisons;
- it would have an important social impact delivering a safer society. (Social Finance, 2014)

UK, Peterborough Prison

The first Social Impact Bond was created in UK in order to fund community organisations to deliver programmes, which stop prisoners returning to prison after release.

Social Finance is also assessing the feasibility of developing Social Impact Bonds at a larger scale for women and for young offenders. (Social Finance, 2014)

Voluntary sector and community organisations have developed innovative programmes that address prisoners' problems. They have been shown to dramatically reduce the rate of re-offending for participants. (Bolton, 2010) In fact, One Service was born specifically to coordinate services through the SIB, which are provided by charities including St Giles' Trust, the Ormiston Trust, and SOVA. They provide intensive support to prisoners released from HMP Peterborough after serving short-term sentences of less than 12 months. The service begins by contacting inmates in the prison before the release, notifying them of the scheme and its opportunities, although enrolment is optional. The intervention is client-focused, with each participant having an individual action plan designed for their individual needs. Support services include, but are not restricted to: ensuring adequate and permanent housing; drug and alcohol treatment; employment assistance; parenting assistance; and mental health support. The St Giles Trust provides a peer network of ex-offenders to support other ex-offenders in developing their skills post-release. St Giles Trust also supports participants post-release to ensure they have access to housing, benefits, drug treatment and other immediate needs. The Ormiston Trust provides specialist advice to the families of participants, including work in the community whilst the offender is still in prison. SOVA trained a number of caseworkers for the project and provided much of the individual needs follow-up work alongside the St Giles Trust. (Cabinet Office, 2013)

These initiatives are currently operated at a small scale due to limited funding. SiBs would raise the finance needed to support and scale these successful models across the UK. Providing these services to all short-sentence prisoners would reduce the rate of re-offending, the prison population, the number of UK prisons and ultimately the cost of the criminal justice system. (Bolton, 2010)

Social Finance forecasts that, if offering this support to short-sentence prisoners led to a 20% drop in re-offending, four prisons could be decommissioned within five years saving £62m per year in running costs and potentially releasing capital from land and buildings. This would deliver cost savings through improved social outcomes rather than diminished services. (Bolton, 2010)

The first, pilot, SIB began delivering services in September 2010, after contracts between a special purpose vehicle, Social Impact Partnership, and the UK Ministry of

Justice (MoJ), Social Finance and investors were signed in March 2010. The investment closed at £5 million. The contract agreed that MoJ and the Big Lottery Fund would make payments to the Social Impact Partnership in the event that reoffending is measurably reduced for male, short-sentenced prisoners released from Her Majesty's Prison (HMP) Peterborough.

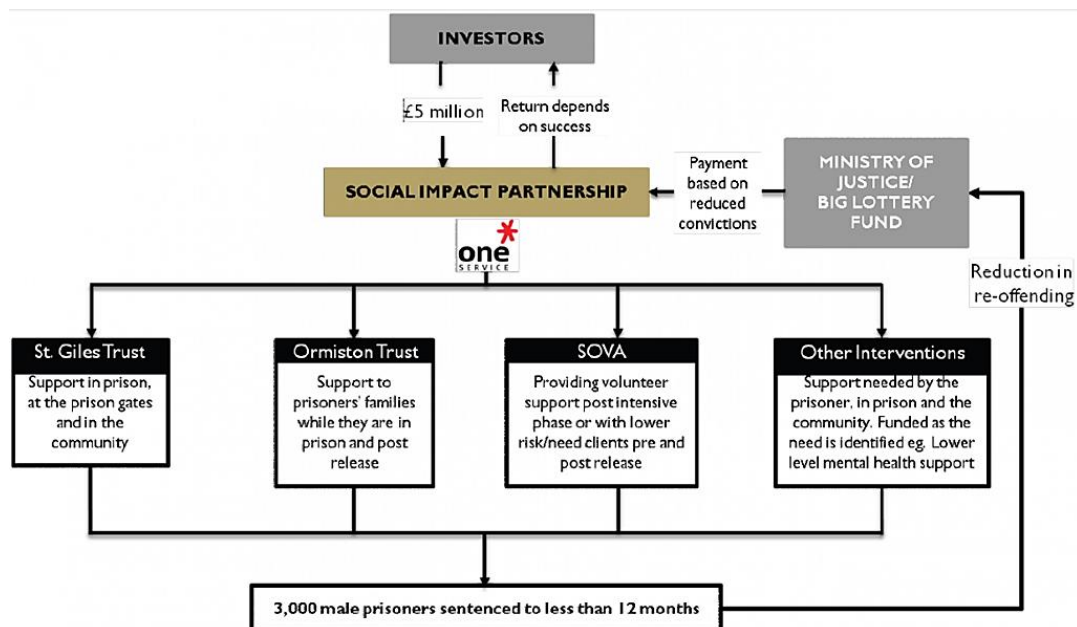


Figure 14: Peterborough SIB scheme. Source: data.gov.uk

The pilot SIB offers intensive support to 3,000 short-term prisoners in Peterborough Prison, both inside prison and after release, to help them resettle into the community. The intervention is managed by the One Service, an organisation created specifically for this SIB (Cabinet Office, 2013). It delivers a tailored, individual service to three cohorts of 1000 unique short sentenced male prisoners from Peterborough Prison. (Helbitz, Powell, Bolton, Ashman, & Henderson, 2011)

Social Finance wanted a programme that would provide a range of services to address a range of needs. The programme would have to adapt to the client group and assess in real time what was working and what wasn't. To achieve this, the funding, the governance and the management of the operational delivery had to ensure the right level of flexibility. The operational side would be able to allocate its spending once it had actively assessed the client group. The governance plays a critical role to ensure that the intervention improved the life chances of all of our clients while maximising the potential for financial returns. It needs to manage any conflicts of interest between these two objectives. Social Finance established a highly experienced external Advisory

Group, led by David Robinson, to oversee the work and to ensure proper co-operation between the local voluntary and statutory providers with the Social Impact Bond service. (Helbitz, Powell, Bolton, Ashman, & Henderson, 2011)

The One* Service contracted four organisations, St. Giles Trust, Ormiston Children and Families Trust, YMCA and SOVA, to deliver its core activities. St. Giles Trust and Ormiston Children and Families Trust focus on the immediate needs of an offender and his family before and after he is released from prison. These needs include accommodation, medical services, family support, employment and training, benefits and financial advice. Many clients reported that they either struggled to maintain relationships or felt that their existing social networks were detrimental to their progress. Many lacked positive role models or someone who could provide a reference for a job or introduce them to a new circle of friends. Social Finance anticipated it will take on average four months to meet the short-term needs of an ex-prisoner. After that, SOVA and YMCA assign a volunteer to support him over the subsequent months and continue the work on longer-term objectives. (Helbitz, Powell, Bolton, Ashman, & Henderson, 2011)

If the SIB reduces reoffending for the cohort within a year of release by a threshold of 10% for any of the three cohorts of 1000 ex-prisoners or 7.5% across the entire 3000, investors will receive a payment from the MoJ, part of which may come from their savings. (Cabinet Office, 2013)

This program offers its investors a graduated return between 2.5% and a maximum of 13.3%, once the minimal rate of 7.5% reduction in repeat offences is reached. The financial return increases in tandem with the decrease in the repeat offence rate. The annual return to investors is capped at 13.3% (representing a 15% decline in repeat offences). The cost sustained by the public authorities is only about one-third of the planned savings and, if the 7,5% objective is not reached the Government has no interest to pay and the investors will lose their capital. (Mendell & Emilien, Social Impact Bond, 2012)

Amount of bonds	Decrease in repeat offence rates (recidivism)	Financial return to investors
£5 million (~Can\$8 million)	7.5% to 15%	2.5% to 13.3%

Figure 15: Peterborough SIB. Source: data.gov.uk

The total payment from the MoJ is capped at £8m. Reoffending is measured as the number of reconviction events for offences committed in the 12 months following release from HMP Peterborough, the reconvictions having been recorded in the 18 months following this release. (Cabinet Office, 2013) Anyway, results are not measured by a binary measure (whether the offenders reoffend) but rather by a frequency measure (the combined number of reconviction events). This encourages the providers from the One* Service to work with all the clients, including those who are the most prolific reoffenders. (Helbitz, Powell, Bolton, Ashman, & Henderson, 2011)

USA

In August 2012, Goldman Sachs Bank's Urban Investment Group (UIG) announced the first social impact bond (SIB) in the United States, a \$9.6 million loan it would make to support the delivery of therapeutic services to 16- to 18-year-olds incarcerated on Rikers Island.

The loan will be repaid based on the actual and projected cost savings realized by the New York City Department of Correction as a result of the expected decrease in recidivism. This unique public-private partnership between the City of New York, MDRC, the Osborne Association, Bloomberg Philanthropies, and Goldman Sachs leverages high-quality non-profit capacity, private-sector capital, and philanthropic support to address a pressing community challenge. (Olson & Phillips)

According to the data of 2012, in fact, the 50 percent of adolescents who leave the New York City Department of Correction return within one year. The programmes aim at helping more young men stay in school, find and keep a job and do not offend again. (The city of New York, Office of the Mayor, 2012) The Riker's Island SIB represented an opportunity to fulfil at the same time two different objectives: on one hand there is for UIG the real opportunity to help effectively young prisoners and, on the other hand the opportunity for investors to earn from social projects. (Olson & Phillips)

The transaction structure

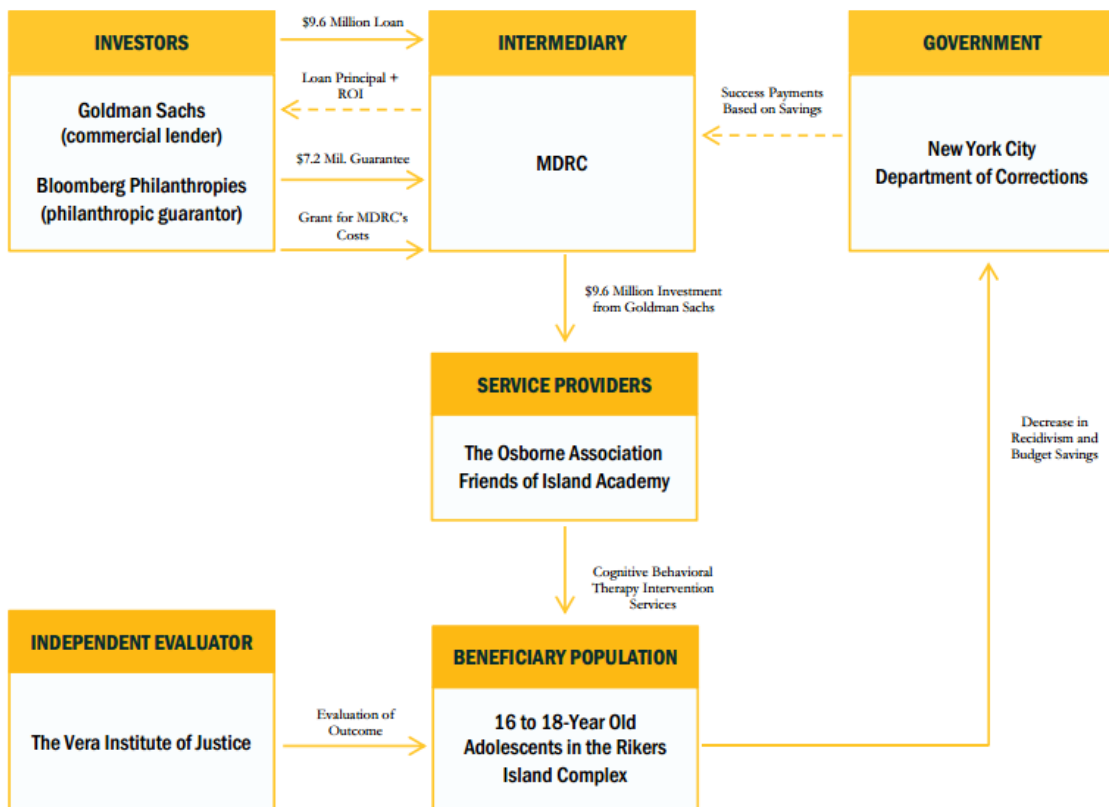


Figure 16: Riker's Island SIB scheme. Source: Nancoo and Billet, 2014

The Goldman Sachs loan is structured as a \$9.6 million multiple-draw term loan to MDRC, an experienced intermediary known for bringing together public and private funders to test new policy ideas. MDRC will provide funding to the service provider, the Osborne Association, which has extensive experience in providing services to incarcerated youth, using the Goldman Sachs loan. MDRC, through a contract with New York City, will oversee the day-to-day implementation of the project and is responsible for any payments to Goldman Sachs. (Olson & Phillips) The Vera Institute of Justice, an independent, nonpartisan, not-for-profit centre for justice policy, will be an independent evaluator of the program will verify that the project has achieved the intended reductions in recidivism and determine if payment is warranted pursuant to the terms of the transaction. (Pattonboggs, 2014) Based on the results of the evaluation (at twelve- and twenty-four-month post release intervals), New York City will provide success payments to MDRC based on the actual and projected cost savings from the reduced recidivism rate, according to the payment schedule shown in the figure below. MDRC then repays the Goldman Sachs loan from the New York City success payments. (Olson & Phillips, Rikers Island: The First Social Impact Bond in the United States)

Reduction in Re-Admission Rate	Projected Long Term City	
	Net Savings (\$)	City Payment to MDCR
≥20.0%	\$20,500,000	\$11,712,000
≥16.0%	\$11,700,000	\$10,944,000
≥13.0%	\$7,200,000	\$10,368,000
≥12.5%	\$6,400,000	\$10,272,000
≥12.0%	\$5,600,000	\$10,176,000
≥11.0%	\$1,700,000	\$10,080,000
≥10.0% (<i>breakeven</i>)	\$ ≥ 1,000,000	\$9,600,000
≥8.5%	\$ ≥ 1,000,000	\$4,800,000

Figure 17: Rikers Island projected results. Source: Olson & Phillips

The transaction benefits from a guarantee provided by Bloomberg Philanthropies. The foundation provided a \$7.2 million grant to MDRC to guarantee a portion of the loan, thus reducing Goldman Sachs' risk. If the recidivism rate of the target population is reduced in excess of 10 percent, further net projected taxpayer savings will be realized resulting in higher returns to Goldman Sachs. (Pattonboggs, 2014)

Israel

There are currently 25,000 prisoners in Israel, serving sentences in one of the country's 32 prisons. Of these, 60% are criminal (non-security) prisoners and 48% of prisoners are serving more than one sentence. Each year, of the 6,500 prisoners who are released from jail, between 47-50% will return to jail, usually within one year. This presents high economic and social costs to the government and society of Israel. While many studies have indicated the effectiveness of rehabilitation programs on reducing recidivism, early release and rehabilitation initiatives are still small in scale due to lack of resources. (Social Finance Israel)

To tackle this issue, Social Finance Israel plans to issue a Social Impact Bond to fund rehabilitation programs for ex-offenders, in order to reduce crime recidivism and promote the integration of ex-prisoners into civil society. This program will implement a holistic rehabilitation service that tackles all the leading causes of recidivism, and will be customized for each released offender by offering housing support, employment training, soft skills, career placement, and community support. (Social Finance Israel)

This Social Impact Bond will be issued to private investors, whose financial return is funded by the economic benefit to the government due to the decrease in recidivism

rates. This benefit is based on three directly measurable economic indicators that are triggered when a released prisoner is staying out of prison and persisting in their jobs: a reduction of incarceration costs, decreased costs of crime systems (e.g. court, police) and a growth of individual GDP. (Social Finance Israel)

Conclusive consideration

It is worth to note that in all the three presented cases the reason why the SIB model was chosen is mainly given by the lack of resources able to fund long term effective preventive programmes. The basic structure of the three SIBs is the same but there are some important differences:

- In the Peterborough case the capital come from private investors, while in the Riker's Island case from a bank, Goldman Sacks: the choice may depend by the investors' willingness to take the risk of a SIB project as well as by the role played by the banks in a specific Country.
- In the Riker's Island case there is an actor who misses in the Peterborough one: the philanthropic association that provides a grant to the intermediary, in order to reduce the risk for Goldman Sacks. In fact the bank does not risk the whole capital but just a part of it. This higher level of security is a way to face one of the main problem of the SIB model, given by the concentration of a consistent level of risk on just one actor (who provides the capital).

Vulnerable Children

Social Finance, with the support of the Big Lottery Fund, has worked with four Local Authorities, including Essex County Council (ECC), to explore the feasibility of using the Social Impact Bond mechanism to fund intensive prevention programmes for vulnerable adolescents at risk of going into care. Essex County Council is the first local authority to commission a Social Impact Bond in Children's Services. (Social Finance, 2014)

In order to better understand the current situation in the children social care sector it is important to consider that:

- Total looked after children (currently 67,050 in England) has grown at 3% per year for the last five years; (Social Finance, 2014)

- A survey of Essex local authorities (that can be considered valid also for other countries) found an average 8% overspend in Children's Services budgets in the last three years despite a 12% increase in budgets; (Social Finance, 2014)
- A quarter of all prisoners have been in care compared to 2% of the population overall; (Social Finance, 2014)
- Educational attainment by looked after children is five times worse than for the population overall over 50% of looked after children obtain fewer than five GCSEs (General Certificate of Secondary Education) or equivalent compared to the national figure of 10%; (Social Finance, 2014)
- One third of previously looked after children are NEET (not in education, employment or training) at age 19. (Social Finance, 2014)
- Young people in care are significantly more likely to develop physical or mental health problems and suffer from lower educational attainment. For example, research has shown that looked after children are half as likely to have obtained five GCSEs at grade A* to C. (Cabinet Office of UK Government, 2013)
- An analysis of interventions in Manchester showed that, although there are many good interventions to stop young people entering care, there are currently no interventions available to support a return either to the home or foster care. (Cabinet Office of UK Government, 2013)

Thus, the sector needs funds due to the increasing of demand and decreasing of the available budget. Moreover, it represents a promising area for the application of the SIB model due to the short and long term savings given by having, in the short term, less children into care (that is a very expensive service for the local government) and more employed and honest citizens in the future. It is also to be considered the high social impact of the children social care issue: in fact, young people often enter into care because of multiple and complex behaviour problems, triggered at adolescence, which lead to aggression, antisocial behaviour, parental loss of control, family breakdown, and ultimately an inability or lack of desire to continue living with the birth family. (Social Finance)

UK, Essex

Essex has had a higher number of young people in care than both the national average and statistically comparable local authorities, as well as a predominance of older adolescents in care. Care placement costs are high, ranging from £20,000 to £180,000 per year per individual. By focusing on parenting and family relationships, it is possible to keep more vulnerable families together, and prevent the number of children entering care. (Cabinet Office, 2013)

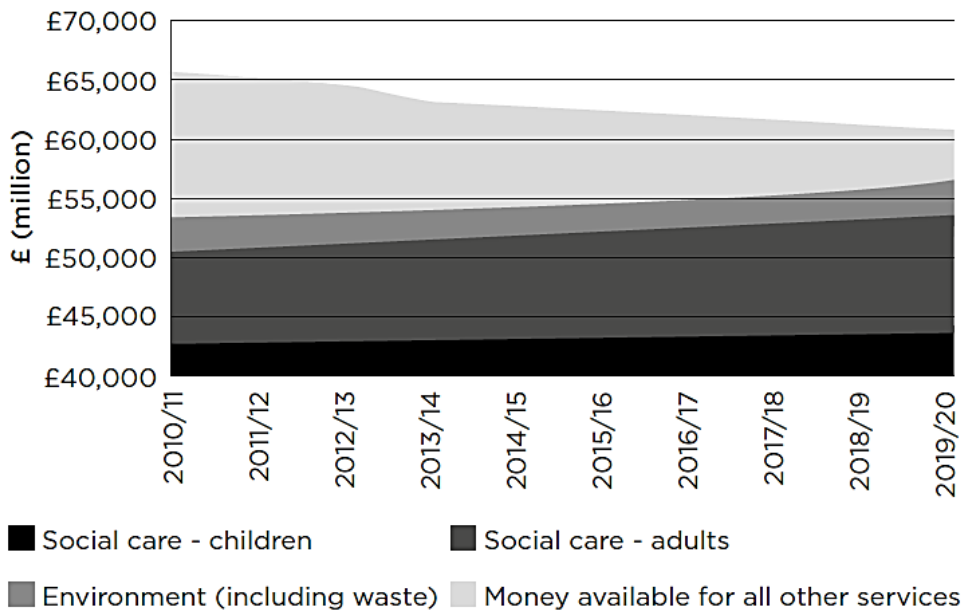


Figure 18: Essex social care demand and budget. Source: Social Finance, Technical guide

The above graph from the Essex Local Government Association shows this increasing demand trend set against local authorities' decreasing budgets. In such an environment it is not surprising that prevention gets squeezed. (Social Finance, 2014)

The Essex Social Impact Bond focuses on 11-16 year olds at the edge of care or custody in Essex, with the objective of providing support in order that the young people can safely remain at home with their families, with the aim of substantial improvements in their long term outcomes. (Social Finance, 2014)

More specifically the SIB allows to provide Multi-Systemic Therapy (MST) to 380 young people at risk of entering care and their families over an 8 year period. The programme consists in delivering family therapy in order to rebuild positive family relationship. MST services are being provided in Essex by Action for Children, a leading children's charity with a track record in developing and delivering early

intervention programmes. Alongside the funding for MST, a separate ‘Evolution Fund’ has been created. This is a pot of money that was not allocated to a specific purpose at the outset of the project, but instead provides the flexibility to invest more resources in elements of the programme that are proving most successful or require more resources than was anticipated. (Cabinet Office, 2013)

The scheme below represents the way of funding and the different relationships among the actors participating the model: investors, including Big Society Capital and Bridges Ventures, provided £3.1m to Children’s Support Services Ltd (CSS Ltd), a Special Purpose Vehicle set up to manage the project. CSS Ltd provides operational funding to the service provider (Action for Children), with payments back to investors coming from Essex County Council when outcomes are achieved. The Department for Education, Department of Health and the Department of Work and Pensions also provided additional funding for set up costs and evaluation. The SIB could save Essex County Council a total of £10.3m over the period of its existence. This is based upon projected savings of £17.3m gross, with a £7m cap on outcome payments by the Council. (Cabinet Office, 2013)

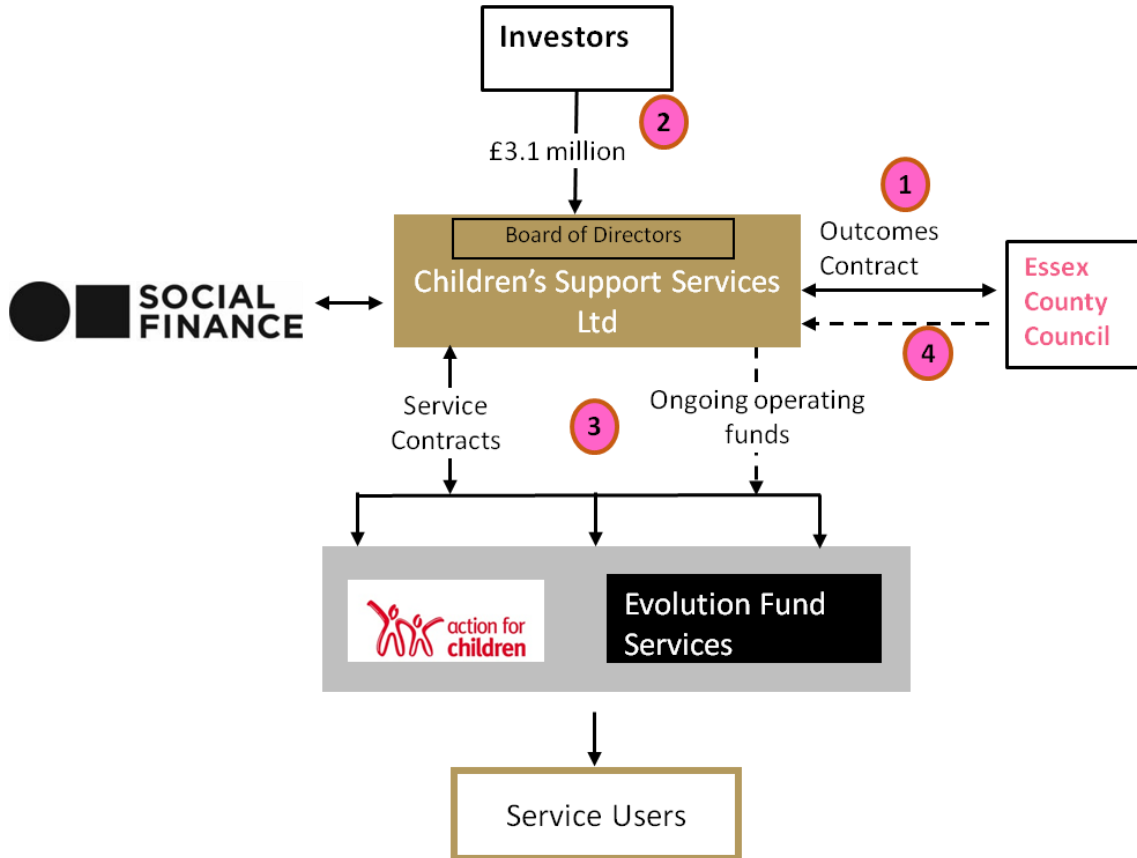


Figure 19: Children at risk of going into care scheme. Source: data.gov.UK

The key metric on which outcome payments are made is the saving in aggregate care placement days for each MST cohort, benchmarked against a historical comparison group. (Social Finance, 2014) In fact, the success of the project will be compared to a historical case file of 650 cases with data tracked over 30 months. The measurements will be undertaken by a third party to ensure objectivity. (Cabinet Office, 2013) This outcome will be measured by tracking care days saved over a 30 month period for each individual referred, starting at commencement of the MST service. The Social Impact Bond will seek to capture other key outcome metrics to measure the broader improvement in social outcomes for young people receiving the interventions. These will include school attendance, offending and measurements of emotional wellbeing. (Social Finance, 2014)

The primary outcome metric for the cohort is the average number of care days and is compared to the control review figure at the end of each measurement quarter. The control review figure is the average number of care days spent in care by a comparable group of children over a 30-month period. This control review figure was established prior to the signing of contracts, based on historical case file data. (Cabinet Office, 2013)

DWP (Department for Work and Pensions) pays for one or more outcomes per participant which can be linked to improved employability. A definitive list of outcomes and maximum prices DWP was willing to pay for Round 2 is as follows: (Cabinet Office, 2013)

Improved attitude toward school	£700
Improved behaviour	£1300
Improved attendance	£1400
Entry Level Qualification	£900
NVQ Level 1 or equivalent	£1100
NVQ Level 2 or equivalent	£3300
NVQ Level 3 or equivalent	£5100
Entry into employment	£3500
Sustained employment	£2000

Notable innovations include: unique developments within the payment mechanism that facilitate earlier repayment, lessening risk exposure and controlling return rates. It also involved a collaborative approach between the service provider and existing care services: providers had access to local authority case management systems to ensure high quality and mutual data exchange. (Cabinet Office, 2013)

Australia, Newpin Social Benefit Bond

Children in out-of-home care, as already stated talking about this sector in UK, often have poorer outcomes than their peers. The Newpin Social Benefit Bond (Social Benefit Bond is the name given to social impact bonds by the New South Wales Government) will focus on restoring children to families and preventing children from entering out-of-home care. There are currently more than 18,000 children in out-of-home care in NSW. (Social Ventures Australia, 2014) Newpin is a programme that provides intensive support to parents, to improve parenting styles, behaviour and practices. This helps parents to build positive parent-child relationships.

The \$7 million Newpin SBB will initially fund four centres and pay for the expansion of Uniting Care Burnside's Newpin programme. Newpin has a solid evidence base and a track record of delivering successful family restoration. Family restoration is a court decision to return children to their families due to a demonstrated improvement in the safety of their home. (Cabinet Office, 2013)

The NSW Government worked collaboratively with the proponents to develop a suitable measurement and payment model. The agreed model aims to ensure that there is sufficient incentive to work with a range of families to maximise and maintain the benefits of the programme. The measurement model will consider the rate and number of children restored to families as well as children who re-enter out-of-home care after initially being restored. In addition, the model will measure the number of prevented entries to out-of-home care for families at risk of having a child removed. (Cabinet Office, 2013)



Figure 20: Newpin SBB Australia. Source: Social Ventures Australia

Restoration Rate [iii]	Interest Rate [iv]	Principal Payment on Maturity [v]
60%	7.5%	100%
65% (Target)	12.0%	100%
70%	15.0%	100%

Figure 1: Illustrative returns Newpin SBB Australia. Source: Social Ventures Australia

All family restorations are independently approved by the NSW Children’s Court. The savings generated by the restoration of children to their families are shared with investors to provide an attractive return. (Social Ventures Australia, 2014)

UK, Manchester

The project has been commissioned by Manchester City Council and will be run by Action for Children and funded by the Bridges Social Impact Bond Fund. Bridges Ventures has been working closely with Manchester City Council and Action for Children to structure this five-year programme. The Bridges Social Impact Bond Fund will provide £1.2m working capital for the scheme. (Action for Children, 2014)

The charity will find specialist foster placements for young people who are currently living in residential care homes. The foster carers will be trained to provide Multi-Dimensional Treatment Foster Care (MTFC), which helps young people with challenging emotional and behavioural difficulties move back into family settings. (Action for Children, 2014)

A SIB is being used to test and build evidence for Multi-Dimensional Treatment Foster Care Adolescents (MTFC-A). MTFC-A provides support for young people with severe behavioural and emotional issues, whose needs are the most extreme but often cannot be met through current provision. The use of a social impact bond allows MCC to trial this intervention, whose efficacy is supported by independent research, without diverting funds from other projects. The MTFC-A programme, which lasts for a year, has two major aims. First, to create opportunities so that young people are able to successfully live in families rather than in group or institutional settings. Second, it seeks to simultaneously prepare their parents, relatives, or other aftercare resources to provide young people with effective parenting so that the positive changes made while placed in MTFC-A can be sustained over the long-run. Four key elements of treatment are targeted during placement and aftercare:

- Providing a consistent reinforcing environment where the young person is mentored and encouraged to develop academic and positive living skills;
 - Providing daily structure with clear expectations and limits, with well-specified consequences delivered in a teaching-oriented manner;
 - Providing close supervision of the young person's whereabouts and helping young people to avoid deviant peer associations while providing them with the support and assistance needed to establish pro-social peer relationships.
- (Cabinet Office, 2013)

Payments will be made:

- for each week young people are on the MTFC programme and hence not requiring residential care;
- for each week in which young people who have graduated from the programme remain in a family setting (i.e. not in residential care or youth custody) and
- for improvements in wider wellbeing recorded at graduation from MTFC and 12 months after graduation (for graduates only).

These will generally be measured from the referral of a young person to the MTFC-A programme (up to and including graduation) and for a period of time up until 3.5 years from referral to the programme (Cabinet Office, 2013)

During the feasibility study a baseline was set to ensure that the outcomes achieved are measuring additionally and take account of the non-intervention level. The analysis was

completed using data on 11-14 year olds in residential care in 2007 – 2008. Through following the young peoples' placements over time it was established that children who enter residential placements in early adolescence have a very high likelihood of spending the remainder of their time in high cost placements. The SIB therefore assumes no deadweight. The successful provider will be required to enter into a contract with the MTFCE National Implementation Team, regarding the delivery of the MTFC model. MTFCE will provide on-going evaluation of the MTFC programme. (Cabinet Office, 2013)

The maximum outcome payment of £148,600, compares to a cost of £546,000 for an average looked after young person who enters residential care and remains there for 182 weeks (3.5 years) at approx. £3,000 per week. The saving made for each young person will be cashable for Manchester as residential are not paid where young people successfully complete the MTFC programme. (Cabinet Office, 2013)

The development of this SIB gave to possibility to learn more about how the scheme should be developed. First of all, the feasibility study carried out before starting the implementation made easier the negotiation process, giving more information and guarantees to the investors. Then, the consultant and social finance support reduced the time to market, gave speedy clarity to difficult issues, and provided a safe environment in which we could ask 'silly' questions. Moreover, the involvement of key officers and staff from across the organisation has been vital. Manchester has committed officer and staff time and experience from across the organisation throughout the project. (Cabinet Office of UK Government, 2013)

Canada, single mothers

On May 2014 the first Canadian SIB was born.

The project is called Sweet Dreams and it is provided by EGADZ's Saskatoon Downtown Youth Centre. EGADZ will provide single mothers with children under the age of eight who are at risk of requiring services from Child and Family Services with affordable housing and support while the mothers complete their education, secure employment, or participate in pre-employment activities such as life skills training and parenting classes. The ultimate goal of this program is to help these families transition back into the community. (Saskatoon, 2014)

Under the Social Impact Bond agreement, EGADZ will receive \$1 million from private investors – Conexus Credit Union, and Wally and Colleen Mah – to deliver the program and achieve the desired social outcome, which is to keep children out of foster care. The home for the Sweet Dreams project has also received funding from the Government of Canada’s Homelessness Partnering Strategy (\$320,000), the City of Saskatoon (\$140,000), and other private donors (\$75,000).

The Sweet Dreams project is expected to result in savings to the Government of Saskatchewan of between \$540,000 and \$1.5 million over five years. These savings are based on the cost of children in care of the minister of Social Services. This figure does not include any other potential savings related to health, criminal justice and any future social assistance. (Manwaring, 2014)

UK, IAAM SIB

Consortium of Voluntary Adoption Agencies (CVAA) and Baker Tilly have developed a SIB to fund adoption services for hard to place children. The launched program is called “It’s all about me” (IAAM) and aims at helping children to find a permanent place, providing therapeutic support and training to the adoptive families twenty-four hours per day for the first two years. (Cabinet Office, 2013)

The Social Impact Bond is targeted to facilitate and support up to three hundred extra adoptions a year in the UK. These are likely to be focused in particular on children from black and minority ethnic backgrounds, with medical or clinical conditions, and those that are over four years old or in sibling groups. (Social Finance, 2014)

Many of these children have suffered from neglect, developmental disruption and traumatic experiences and need additional support to rebuild a normal developmental pattern and deal with their traumas, making it more difficult to find suitable homes for them. Research has shown that children who fail to find permanent homes, families and support are much more likely to be NEET and suffer from poor mental and physical health.

Additionally, the cost to a local authority of keeping a child in care can be over £100,000 a year. (Cabinet Office, 2013)

Private investors and institutional funders will provide funding of £2m to a central IAAM fund, which makes advances to the voluntary adoption agencies child-by-child. A list of outcomes and the price paid by the LA for its achievement were established. The first outcome is the registration, when the LA and VAA sign a contract and the price was equal to £8,000; the second is the placement, when the child found a family suitable for his needs (£23,000); the third is given when the child reaches successfully one year of placement (£6,800); the last one is achieved after two years in placement (£15,800).

Outcomes payments are paid upon the achievement of four separate milestones. If the placement fails before the next instalment is due, no further payments will be made by Local Authorities. Therefore, if the service is successful local authorities will pay around £54,000 per child for the service to the VAA. The Social Outcomes Fund will contribute £10,000 in outcomes payment, for the first 100 children registered under the SIB, in order to reduce investor and provider risk. Outcomes payments from the Local Authority are used to repay capital repayments to investors, as well as a 4% yield.

The bond has been designed specifically to pay a commercial return in order to make the break from the narrower social investment markets into the normal investment market. At the end of the scheme, 50% of any residual funds (i.e. if breakdowns are less than 10%) will be made available to the CVAA either for the continuation of the IAAM scheme or for alternative adoption interventions by the VAA Network, with the balance going to enhance investor yields. (Cabinet Office of UK Government, 2013)

Conclusive consideration

Excluding the Canadian case for which there are not enough information yet, the other vulnerable children cases are very similar. It is clear that the social issue and its economic consequences are almost the same for different countries. Current methods used having children into care are expensive and not effective; moreover there is almost no prevention and the available budget are not enough to fund long term preventive programmes. That is why the SIB model results very appropriate.

The main difference between the English and the Australian cases is given by the measurement model: in the Essex case it is much more complete and complex, taking into account different important indicators, while in the Newpin case only two

indicators are considered. The reason comes very likely from the higher level of experience of the English actors, as Social Finance, compared with the Australian ones.

Unemployment

UK

The Department of Work and Pensions (DWP) has awarded two contracts worth up to £7 million from the Innovation Fund to two social investment partnerships established by Social Finance. The Social Impact Bonds will fund interventions to work with around 2,500 14-15 year olds who are disadvantaged or at risk of disadvantage to help them participate and succeed in education or training and thereby improve their employability. (Social Finance, 2014)

It was commissioned over two rounds via an open competition.

Round	Contracting Body	Delivery Locations
One	APM UK Ltd	West Midlands - every Birmingham Ward
One	Links4Life ltd (SPV)	Stratford, Canning Town, Royal Docks (Newham), Cathall (Waltham Forest)
One	Indigo Project Solutions	Perthshire and Kinross
One	Nottingham City Council	Nottingham City
One	Private Equity Foundation	Shoreditch, London
One	Triodos New Horizons ltd (SPV)	Greater Merseyside
Two	Prevista	West London boroughs of Brent, Ealing, Hammersmith & Fulham, Hounslow, Westminster and Haringey
Two	3sc	Cardiff and Newport
Two	T&T Innovation ltd (SPV)	Greater Manchester - Manchester, Salford, Bolton, Oldham, Tameside
Two	Energise Innovation	Thames Valley - Bracknell Forest BC, Buckinghamshire CC, Milton Keynes Council,

		Oxfordshire CC, Reading BC, Slough BC, West 1 Berkshire DC, Royal Borough of Windsor and Maidenhead, Wokingham BC
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This case represents a pilot project used also in order to test a range of social investment and innovative delivery models. These models can be categorised under three models:

- the single investor model: the DWP is the Public Authority that engage multiple service providers in order to deliver specific social programmes and achieve determined results using the capital provided by a single investor (Cabinet Office, 2013)

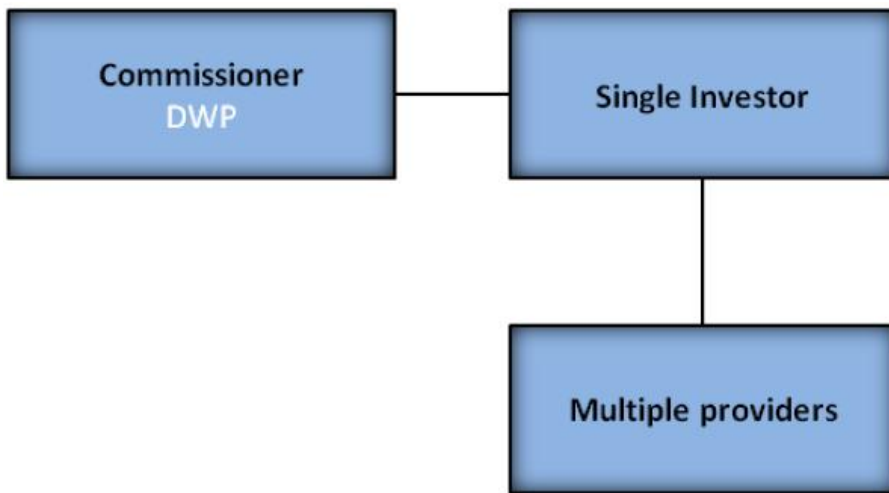


Figure 21: single investors model. Source: data.gov.uk

- the intermediary model: the intermediary actor plays a crucial role linking the social organizations, the investors and the public entity (Cabinet Office, 2013)

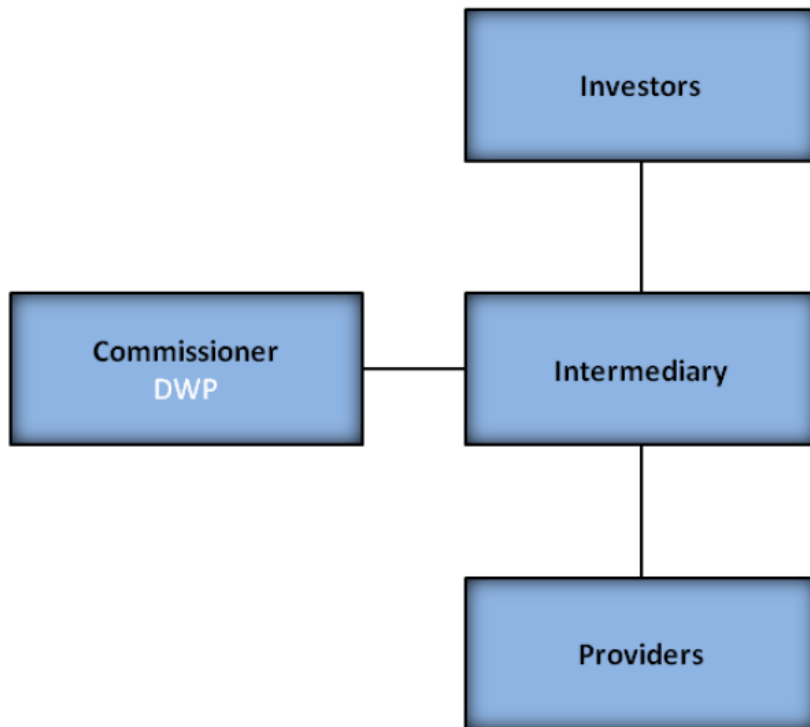


Figure 22:the intermediary model. Source: data.gov.uk

- the multiple investor SPV model: the Special Purpose vehicle is a legal entity created solely to serve a particular function (in this case to collect the capital and manage the SIB project in order to achieve the established purposes). (Cabinet Office, 2013)

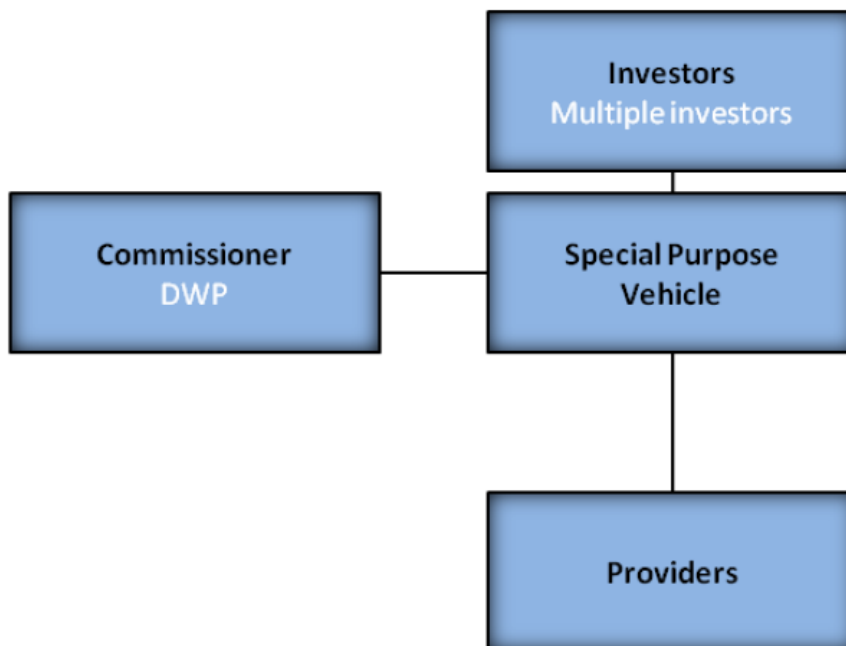


Figure 23: multiple investors model. Source:data.gov.uk

The programmes will be delivered by Adviza in the Thames Valley and Teens and Toddlers in the North West of England. The programme is designed to build resilience, confidence and aspiration to enable vulnerable young people to progress in their lives particularly in terms of education and work. Energise will work with young people in Aylesbury, Banbury, Bracknell, Oxford, High Wycombe, Milton Keynes, Reading and Slough as well as with disadvantaged groups in more rural areas. The programme will target training and support to young people from the following groups: those with family issues, young offenders, young people in care, care leavers, substance misusers, those with mental health issues and young carers. (Social Finance, 2014)

Outcomes payments from the Innovation Fund will be paid over three and half years. The funding is provided at risk by social investors, including Bridges Ventures, Big Society Capital, Barrow Cadbury Trust and the Impetus Trust, whose financial return is aligned to the positive social impact of meeting pre-agreed educational, training and employment outcomes. (Social Finance, 2014)

The DWP has identified a number of outcomes against which the contracts will be measured including improved behaviour, school attendance, educational qualifications and employment opportunities.

More specifically in the first round the established outcomes and related payments were:

Years 10 and 11

- Improved behaviour at school - £800
- Stop persistent truancy - £1300
- Achievement of First NQF Level 2 qualification - £2200
- Achievement of First NQF Level 1 qualification - £700

Years 12 and 13

- Entry into First employment including a training element (e.g. an Apprenticeship, or work-based learning) - £2600
- Entry into sustained employment – 26 weeks - £1000
- Achievement of First NQF Level 1 qualification - £700
- Achievement of First NQF Level 2 qualification - £2200

- Completion of first NQF Level 3 training/vocational qualifications - £3300
- Successful completion of an ESOL course - £1200

Aged 18 Years and Over

- Completion of first NQF Level 3 training/vocational qualifications - £3300
- Entry into education at NQF level 4 - £2000
- Entry into First employment including a training element (e.g. an Apprenticeship, or work-based learning) - £2600
- Entry into sustained employment – 26 weeks – £1000
- Successful completion of an ESOL course - £1200

In the second round:

Age 14 and 15 years

- Improve attitude to school - £700
- Improved attendance at school - £1,400
- improved behaviour at school - £1,300
- QCF accredited Entry level qualifications (below GCSE) - £900

Age 16 years plus

- Improved attitude to school/education - £700
- Basic Skills - £900
- Level One NQF or equivalent - £1,100
- Level 2 NQF or equivalent - £3,300
- Level 3 NQF or equivalent - £5,100
- Entry into First Employment (16 or more hours per week) with training element (e.g. an Apprenticeship, or work-based learning) - £5,500 (£3,500 after 13 weeks and an additional £2,000 after 26 weeks sustained employment)

Till 2013 data, the Innovation Fund has supported over 5000 disadvantaged young people and achieved over 1500 successful outcomes. (Cabinet Office, 2013)

Israel, Ultra-Orthodox SIB

Social Finance Israel (SFI) is working on the development of a SIB aiming to reduce the rate of unemployment and lower the economic difficulties within the ultra-orthodox (Haredi) communities in Israel. This is done by providing a vocational training program together with a sustainable career development program for male Haredi individuals who have voluntarily chosen to enter the workforce, though may not have the training to attain the best career paths.

When each male Haredi begins employment, the government of Israel enjoys a direct economic benefit. This benefit is based on three directly measureable economic indicators that are triggered when a new position of employment is undertaken by a previously unemployed male from the Haredi community: a reduction of income support subsidies, increased tax revenues and a growth of individual GDP. (Israel Venture Network, 2014)

In Israel there is an evident socio-economic gap between the Arab and Jews population. In fact, the 50 percent of Israeli-Arabs live in poverty, compared with 20% of all Israelis. The employment rate reflects these gaps too, standing at 41% among Arabs, compared with 59.6% among Jewish Israelis. This social problem has also a consistent impact on the Israel economy: according to 2006 data, due to the missed exploitation of the Arab workers, the potential lost amounts to NIS 31 billion a year. (Social Finance Israel)

Thus, the SIB will give to the Government the possibility to enjoy a direct economic benefit, as a result of a reduction in welfare support spending, an increase in tax revenue and a growth of GDP. (Social Finance Israel)

Rough sleeping (UK)

Rough sleepers are amongst the most vulnerable people in society, with the average age of death of individuals in hostels or registered with homelessness services 40-44 years. Over half of identified rough sleepers in London have alcohol and substance misuse and

mental health needs. London is estimated to account for over half of all rough sleeping in England, with 5,678 individuals sleeping rough in the year 2011-2012.

This SIB targeted a cohort of entrenched rough sleepers including 831 individuals who have been recorded rough sleeping in the London hostel in the last three months, and who have been recorded rough sleeping at least six times over the last two years. (Social Finance, 2014)

In this case the government authority is represented by the Department of Communities and Local Government (DCLG) and by the Greater London Authority (GLA). In 2012, Social Finance worked with GLA and DCLG to assess the feasibility of a Social Impact Bond. In April 2012 GLA launched a procurement process in order to identify two service providers able to carry on the intervention programmes. (Social Finance, 2014) For one cohort, the contract is directly with the provider, and for the other cohort, the contract is with an SPV including the provider and investors. (Cabinet Office, 2013)

In both cases, the service is funded by a combination of contributions by investors and the providers themselves, so that *risk is shared*, and both stand to make a financial return if the project is successful. (Cabinet Office, 2013)

Both providers have agreed to share information as the project progresses, allowing each to learn from the successes or difficulties of the other. (Cabinet Office, 2013)

Outcomes are paid quarterly and payments can be reinvested, so that only a proportion of the service costs need to be funded by investment if expected outcomes are achieved. As the rough sleeping cohort has multi-dimensional needs, five outcome metrics were identified to assess the effectiveness of Social Impact Bond-funded interventions:

- Reduction in the number of individuals with a bedded down street contact each quarter;
- Confirmed sustainment of tenancy in a non-hostel setting;
- Confirmed reconnection to a country in which individual enjoys local connections;
- A decrease in the average number of A&E (accident and emergency) episodes per person per year. (Social Finance, 2014)
- Sustainment of volunteering, part-time or full-time employment. (Cabinet Office, 2013)

This sector presents a peculiar problem of initial missing data that has to be considered. There are few entities that record data about homeless people. Moreover, the high level of support needs and chaotic lifestyles of the target group, makes very difficult to estimate the current costs and so the potential savings the government will may benefit in the future. The best estimates of current costs were derived from publicly available studies, as well as Hospital Episodes Statistics data and figures from the rough sleeping database of contacts CHAIN. The CHAIN database, maintained by homelessness service provider Broadway, is the most widely used database recording background information and client engagement with services on rough sleepers in London. It was used to calculate frequency measures (e.g. percentage of cohort accessing hostels and average length of stay)for larger unit costs (e.g. cost of hostel accommodation per year)

As illustrated in the table below, criminal justice costs are the most significant driver of public expenditure for this cohort . Costs associated with tenancy breakdowns and local authority-provided temporary housing are also significant at nearly £4,000 per person. Overall, the costs of rough sleeping accrue to local authorities, Ministry of Justice, Department of Work and Pensions and NHS trusts, demonstrating the potential for better outcomes to positively impact a wide range of stakeholders. (Cabinet Office, 2013)

Type of cost	Cost estimates used in model - average costs per person	Costs estimates excluded	Average Net Present Value (over 5 years)
Rough sleeping costs	Outreach services £1,664	Housing benefit uptake	£2,985
Accommodation costs	Temporary accommodation and tenancy breakdowns £3,818	Changes in housing benefit	£6,849
Criminal justice costs	Reconviction costs and Police time £10,693	Probation costs and Long-term imprisonment	£19,182
Employment costs	Job Seeker's Allowance Employment Support Allowance £2,600	Exchequer benefit from employment	£4,664
Health costs	Unplanned hospital usage	Specific alcohol and Drug treatment	£3,390

	(A&E and ambulance) Psychiatric hospital usage £1,890	programmes	
Estimated average cost per person	£20,000		£37,000
Total estimated cost of cohort (675 people)	£13.5m		£24.2m

The lack of evidence on effective models of service delivery and outcomes and the difficulties in the calculation of costs led to design the outcome metrics primarily *to incentivise positive outcomes* for the cohort rather than focusing exclusively on outcomes that demonstrate decreased public expenditure. (Cabinet Office, 2013)

Health

Reducing development of type 2 diabetes, Israel

Type 2 diabetes is one of the most spread health problem in Israel. According to the data reported by Social Finance Israel diabetes-related illnesses already account for over 12% of global healthcare expenditure and affect over the 11% of population in this Country. Moreover, this number is expected to increase till the 12,5%; at the same time, also the pre-diabetic individuals will grow significantly in the next years.

Clinical evidence unequivocally shows that in order to prevent development of type 2 diabetes, one must intervene at the pre-diabetic – a condition where some, but not all, of the criteria for type 2 diabetes are met – before the full economic and social consequences of diabetes are manifested. The most effective interventions are in the form of personalised healthy-living, fitness and dietary programmes, tailored to the specific needs of the pre-diabetic individual, in order to improve health and reduce the likelihood of progression to a type 2 diabetic state. (Social Finance Israel)

Starting from this consideration Social Finance Israel is developing a SIB aiming to reduce the development of type 2 diabetes in high risk pre-diabetics and, at the same time, to generate savings for the Government. This savings will come from the reduction of direct diabetes-related medical expenses, the reduction of direct diabetes-

related disability and income allowances and the increase in economic productivity from increased workforce participation (Samson, 2013)

The program will consist of one intensive year and other two years in order to provide healthy-living and personal fitness programs. The first year will comprise several interventions: group and individual support meetings with nutritionists and dieticians, the availability of free gym and fitness services, the participation in group exercise and lifestyle counselling sessions, the use of SMS and personalized electronic devices that monitor fitness levels.

It has been carefully identified also the target group. In fact, the participants will be randomly selected among high-risk pre-diabetics whose health metrics satisfy two criteria:

- Fasting plasma glucose (FPG) between 110 mg/dL and 125 mg/dL
- Haemoglobin (A1c) levels between 6% and 6,4%

In order to measure the obtained results, the outcomes of the participants will be compared with the control group ones. The control group will be formed by pre-diabetics from similar socioeconomic backgrounds who do not receive intervention programs and the parameters measures in order to establish if the programs were or not successful will be:

- the number of type 2 diabetes cases averted, relative to control group;
- the number of healthy states produced, relative to control group. (Samson, 2013)

Asthma patients, USA, California

Social Finance, Inc. and Collective Health announced today that The California Endowment has awarded them \$660,000 in grant funding to launch a demonstration project to improve the health of low-income children with asthma and reduce the costs that result from emergency treatments. Based in Fresno, California, the project will incorporate rigorous data collection and evaluation methodologies in order to demonstrate the dual social and financial benefits of up-front investment in asthma management and prevention. This project will lay the groundwork for Social Finance and Collective Health to design and launch the first health-focused Social Impact Bond in the U.S.

Fresno, California, has one of the nation's highest asthma rates; approximately 20 percent of children have been diagnosed with the disease, which takes its greatest toll among the low-income population.

Nationwide, asthma is a prevalent and costly chronic disease that is often treated in the emergency room rather than through comprehensive management and prevention. Every day in Fresno, nearly 20 asthma sufferers end up in the emergency room and at least three are hospitalized, at an estimated cost of \$35 million per year.

The California Endowment (TCE), a private health foundation, will provide funding over the two-year demonstration project. Central California Asthma Collaborative and Clinica Sierra Vista, which both have proven track records in managing this disease, will design and execute the comprehensive asthma management program, and Regional Asthma Management and Prevention will provide technical assistance. The partners will engage with the families of 200 low-income children with asthma to provide home care, education, and support in reducing environmental triggers ranging from cigarette smoke to dust mites and other indoor air contaminants. TCE funding will “pay for state-of-the-art in-home interventions that we know, through numerous scientific studies, improve patient health and significantly lower the cost of care,” says Tony Iton M.D., Senior Vice President at TCE.

Reducing asthma-related health care costs is critical to the success of the demonstration project. Collective Health, a Connecticut-based social enterprise specializing in innovative solutions to improve population health, will use insurance claims data to measure health care cost reductions among program participants and calculate net savings from the project. Social Finance, will act as a strategic advisor and will assist with project management and implementation. The savings realized in the demonstration will validate the financial value of home-based asthma interventions and the potential to leverage these savings for program expansion.

Rick Brush, founder and CEO of the Collective Health and former executive of Cigna Healthcare put in evidence the financial value of preventive programmes. The aim of this SIB, in fact, is to obtain a 30 percent reduction in emergency room visits and 50 percent reduction in hospitalizations, which would yield an approximate net savings of \$5,000 per child per year.

In partnership with Collective Health, Social Finance will create an advisory group to begin planning for a Social Impact Bond to launch after the two-year demonstration. The Social Impact Bond will attract up-front capital from investors to scale up the asthma prevention and management program to serve up to 3,500 additional children. The investors will have the potential to recoup their principal and earn a rate of interest if agreed-upon health outcomes are achieved. (The California Endowment, 2013)

State of the art in Italy

So far in Italy, there is not any experience of Social Impact Bond that can be compared with the English one. Analysing the social impact investment market state of the art, it is possible to note a great attention towards the new methods to fund the social purpose organizations.

Many banks are starting to issue Social Bonds, a new type of obligation that is spreading quickly in Italy. They are obligations aiming to fund social purpose initiatives and organizations. The outcome based payment method, fundamental in the British model, is not adopted in the Italian social bond in which the remuneration is guaranteed and not linked to the result. (Salva Risparmio) In the Social Bond scheme the banks role is fundamental, both national and local ones. The subscriber of the Social Bond knows that a part of the collected amount, typically 1-1,5 %, will be provided free of charge to a specific entity. (Bricco, 2014) This amount will be used alternatively to fund a social project or to open a credit line for the provision of funding to favour entrepreneurial initiatives promoted by non-profit organizations. (Ubi Banca, 2014)

The market showed a great sensitivity: “the first social bonds issued by UBI Banca were finished after 36 hours”, explained the professor Roberto Randazzo, who teaches non-profit law at Bocconi University in Milan. (Forum Terzo Settore)

To provide a complete view of the current situation in Italy, below there is a description of the most important practices that it is possible to find in the Italian social impact market.

Bcc Federcasse

Bcc Federcasse is a bank that developed several social and environmental projects, among which there are also the social bonds.

This type of bond is spreading quickly in Italy. They are obligations aiming to achieve social purposes: the private investor is aware buying the Social Bond that he will renounce to a percentage of his return rate. This amount will be used by the bank to fund specific project of social purpose organizations or to open lines of credit at a subsidized rate. Every year 100 million Euros are recorded for this type of operations in

BCC with significant picks for that projects aiming to sustain the south of Italy. Usually the social bonds are intended to help small and medium companies but sometimes are applied to families. (Federcasse BCC, 2014) So far, more than 160 projects were funded providing 40,13 million Euros. The offered interest rate was lower to the market one (2%) and the difference goes to the benefit of borrowers, who can rely on a lower cost of financing.

Intesa San Paolo – Banca Prossima

Banca Prossima is that bank belonging to the Intesa San Paolo Group fully dedicated to the non-profit secular and religious sector. It issued “special obligations” that are very similar to the BCC social bonds. The customer renounces to a percentage of his interests in order to allow the bank to issue concessional loans to non-profit organizations. (Banca Prossima, 2014)

Ubi Banca

In 2010 the UBI Banca Group created an organizational unit named “Enti, Associazioni e Terzo Settore” dedicated to the management of the relationships with no-profit clients. The following year, it launched “UBI Comunità”, a platform of services and tools dedicated to third sector and religious organizations. During April 2012, a new financial instrument was started, “Social bond UBI Comunità”. (Bricco, 2014)

The UBI Banca Group is the institute with the most structured project about the Social Bond in Italy. So far it issued 53 Social Bonds and 558 million Euros is the total value of the subscribed obligations. (Ubi Banca, 2014)

The UBI Social Bond are obligations issued by UBI Banca Group that can be quoted at MOT (Mercato delle Obbligazioni Telematiche). They aim at sustaining great social initiatives. They provide a return for the investor and allow the UBI Group to use part of the total collected money to sustain specific initiatives; alternatively the collected sum may be used to open a credit line for the provision of funding for entrepreneurial initiatives promoted by non-profit organizations (typically social enterprises and cooperatives). Before issuing the Social Bond UBI Banca makes an evaluation of the cash flow stability of the potential beneficiaries. (Ubi Banca, 2014)

Last October, Ubi Banca issued a bond of €20 million for the community, 0,5% of them financing a pet therapy and retrieval of abandoned dogs project. (Girardo, 2014) Another example is the social bond issued to help Intervita to realize a project called “SOStegno donna”, which will promote events to raise awareness of violence against women and will create in the hospitals always open counters where women victims of violence can find a welcoming environment where trained personnel can provide medical and psychological support. The 0,5% of the nominal value of the subscribed obligations will be dedicated to the project. (Ubi Banca, 2014)

Banca Carim

In the Carim social bond the economic burden for the delivering of the money is fully paid by the bank. Also Carim bank, among its set of social bond, issued one (15 million Euros) to fund San Patrignano community, dedicating the 0,6% of the remuneration to fund a specific project consisting in the building of accommodations for young people who are following the recovery program. The bond was closed in advance thanks to the great success it had: it allowed to collect 90000 Euros used to build 16 houses and host 128 guys. (Banca Carim)

Deutsche Bank

The first social bond issued in Italy by Deutsche Bank on the second of July 2014 was aiming at funding the “Banco Alimentare”, that for over 25 years dealing with the recovery of surplus food and distribute it to people in need. The Social Bond, which will amount to a total of up to 20 million euro, the subscriber pays a fixed gross annual coupon of 1.25% and allocates the Banco Alimentare a fee equal to 0.50% of the nominal value of the bonds sold. (Deutsche Bank)

Main problems in Italy

So far, Fondazione Cariplo is the only entity that analysed deeply the existing barriers to the application of the SIB model in the Italian context. Moreover, there is a proposal for the introduction of the SIB tool in Italy but without any concrete proposal about how to adapt the Italian context at a legal, administrative and cultural level. (Gurciullo & Damiano)

The main problem that it is possible to identify are:

- Social enterprises are limited by strict laws that should be modified (155 law forbids the distribution of the profit generated by social enterprises).
- SIB are in a grey area, between a financial instrument and a public tender
- In Italy it is not possible to choose directly the private who will finance the SIB because it would be a violation of the competitiveness law.
- The regulatory system related to the public expenditure (future commitment).
- The spending review consequences.
- It's not given for granted that there are investors willing to accept and sustain the risk of this operation.
- Lack of appropriate measurement systems in the social purpose organizations.

These problems may be categorized in two main macro areas: the first one is related to constraints imposed by the regulatory system, the second one to organizational and cultural problems typical of the social, political and institutional context. (Fondazione Cariplo, 2013)

The most important and atypical contract in the network of relationships that characterize the SIB instrument is the one between the Public Administration and the service provider. Formally it is a tender, a contract according to which one party (contractor) assumes the obligation to build an infrastructure or provide a service for another party (buyer). (Fondazione Cariplo, 2013)

Specifically, SIBs are in a grey legal area, between a financial instrument and a public tender. They may be considered a financial instrument that should be financed by "Banca d'Italia" or by the "Consob". (Mucci, 2013)

In the specific case in which the buyer is a PA in Italy there is a set of specific laws and rules included in the so called "Codice degli Appalti". (Fondazione Cariplo, 2013) It provides a set of thresholds for the direct endorsement, either for the construction of buildings or the supply of services, which trespassing implies the obligation for the relevant public body to issue a competitive tender to identify the contractor (Chauvenet & Pellini, Rethinking the Public-Private Partnership, 2011) and in this case the Authority "per la Vigilanza dei lavoratori Pubblici" is involved. (Mucci, 2013) It would therefore seem not possible nowadays to directly endorse an operator with the kind of

combined construction and supply of welfare infrastructures. (Chauvenet & Pellini, Rethinking the Public-Private Partnership, 2011)

Therefore, in order to introduce the SIB model in Italy it is necessary to establish a neutral supervisory entity and to obtain the approval of the “Banca d’Italia”. (Mucci, 2013) In case of a competitive tender with a fixed quality requirement, the likelihood for the operating company to become the contractor is linked to the lower transactional costs and to the possibility for a subject funded by mean of social impact bonds to actually make an offer equal to the lowest possible. (Chauvenet & Pellini, 2011)

Another important problem linked to the first one and related to the relationship between the PA and the service provider, is given by how the Government should choose the provider. Given the high level of innovativeness of this instrument, there is not a mature market characterized by consolidated standard the PA can look to and an ad hoc mechanism is very likely required. But, in order to implement an ad hoc procedure, SIB services should be considered not belonging to the type of services regulated by Codice degli Appalti. So far it is difficult to be established. In fact, there is a list of specified services excluded by this Codice indicated in the “Title 2 of the first part of the decree”. Among them, there are “sanitary and social services” but it is not sure that the SIB services may be included in this type of services. (Fondazione Cariplo, 2013)

Anyway, even if the Code procedures could not be applied to SIB, it does not mean there is no way to introduce SIB in Italy but it should be considered that to build a totally new procedure will be much more complex. Moreover, the high level of specificity could bring to elaborate a complicated procedure to select the operator among a lot of entities even if, due to its almost unique characteristics, the right service provider could be identified without complicated competitive procedures. (Fondazione Cariplo, 2013)

These kind of problems were faced also in the English case where the Ministry of Justice decided to make an exception to the general rule. (Fondazione Cariplo, 2013)As explained by the law Commission, *“An exception was necessary for low-return and high-risk investments that were entered into for the primary purpose of achieving the tax-exempt purposes of the foundation, and so rule 4944(c) was enacted to exclude “program-related investments” from the scope of the rule. Such an investment has to satisfy three criteria: (1) the primary purpose of the investment has to be achieving the*

charitable, religious, scientific, literary, educational or other tax-exempt purpose; (2) no significant purpose of the investment can be the production of income or a capital return; and (3) the investment cannot be used for lobbying or political purposes.” (Law of commission, 2014)

The most complex element in manage the project of a SIB in Italy is given by the regulatory system related to the public expenditure. In fact, the PA would make a commitment at the present for the future without knowing the right needed amount (which is variable according to different things that is impossible to determine at the beginning). Moreover it is needed to face the obstacle of the accounting rule for the public finance. The “Corte dei Conti” states that the PA has a concrete constraint about the destination of a certain amount accounted as “ad hoc”: it cannot be used for reasons different from the initially specified one. Following the English example, the Italian PA should consider the highest possible expense and, in case of failure of the experiment, have a contingent asset in the balance sheet. (Fondazione Cariplo, 2013)

Furthermore, the last years laws related to the spending review have reduced the movements of resources from the central to the local institutions and have made more uncertain the available amount of resources and have reduced the movements of resources from central to local administrations. This situation made the PA more reluctant to take long term obligations and, in general, to push the innovation. (Fondazione Cariplo, 2013)

Another kind of problem is linked to the complexity of the contracts system and the related costs. For instance, the “man time”, even if it is not accounted in the balance sheet, represents a cost that, in particular in scarce resources periods, must be carefully evaluated. Moreover, the professional figures who have the specific competences needed in this innovative projects are the most expensive ones. In this case there is not a legal obstacle but an organizational one and it cannot be under evaluated. The PA cannot, in fact, just adhere to an external proposal without putting its own effort and resources in the project actively: in other words, it cannot simply trust the third party but it must work to protect its own interests. (Fondazione Cariplo, 2013)

Another criticality is represented by how the Italian PAs work. (Fondazione Cariplo, 2013) According to professor Randazzo, professor at Bocconi University, in Italy there is not a Public Administration able to identify and choose the highest social value projects: this element was fundamental in the English bonds where the Government invested public money creating a new market. (Forum Terzo Settore)

In general in Italy, the approach is not oriented to innovation: it is more linked to the respect of formal rules and not to the research of innovative solutions. Usually the PAs are not willing to share information and collaborate with other entities. The greater localization of social policies, and in general the higher level of autonomy of local administrations, have built systems not able to communicate with each other.

Furthermore, different PAs have different type of data that is hard to integrate due to the different methodologies through which they were collected and elaborated. This low data quality make difficult to create good measurement methods, for instance, related to current service costs and future possible savings. (Fondazione Cariplo, 2013)

Furthermore, as already stated, for a successful implementation of the SIB model is essential to adopt a reliable measurement system of the results. According to a research presented last July by Fondazione Sodalitas and IRS, only one out three social purpose organization measures the results of its programmes. The research took into account cooperatives, foundations and associations. Most important, just in few cases these measurement systems aim to verify the quality of their own services but they are used to understand the needs of the population or to measure some aspects of their projects (Sodalitas, 2014) This data put in evidence that, in order to introduce the SIB in Italy, is essential to develop and spread efficient measurement systems, that are able to track and record the obtained partial and final outputs.

Besides, it is not given for granted that there are investors willing to accept and sustain the risk of this operation. The higher collocation costs make hard to imagine that the retail market (families) might be included in the potential investors group and, in Italy, the retail market represents an important source of funding. (TaskForce, 2014)

To achieve a minimum level of financial efficiency, it is needed a limited number of entities characterized by an high risk appetite and a strong social vocation. Therefore, the potential investors market is reduced to banking foundations, considering the institutional investors, and high net worth individuals (HNWI), considering privates. In

fact pensions funds, assurance organizations or companies (in particular if publicly traded) have not the possibility to invest in the SIB project without violating the fiduciary duties towards their stakeholder: the high level of risk can be compensated only by a strong social objective. (Fondazione Cariplo, 2013)

How to develop SIB

In Italy, as we have mentioned above, there is extreme need for welfare-related structures and for social services, also in light of the economic downturn which caused the public debt to raise consistently in the last few years, as the public bodies alone are not able anymore to face the risks and the costs related to both the construction and the supply of welfare infrastructures and services. Private sector in Italy has proven to be an irreplaceable source for welfare services since the beginning of the 20th century. (Chauvenet & Pellini, 2011) So why not endorse the private sector with the building of new structures and the supply of such services? Granted that socially aware entities focusing in providing welfare services – namely foundations, associations, cooperatives, social enterprises – have not enough funds to face the whole cost of building and managing a welfare-related structure, the social impact bonds scheme may come to rescue (Chauvenet & Pellini, 2011).

The current situation of Italy, considering the high involvement of retail (families) and commercial private investors into the social investment market, demonstrates that it is possible to canalize the action of different private operators towards an effective support to the PA. Talking about private operators it is intended the “social private” world where a wide plurality of organization and business models are included, from the informal volunteering to the organized one, to the social enterprises. The most part of the revenue sources come from payments by PA and just a smaller part from donations. (Fondazione Cariplo, 2013)

Research Methodology

The research methodology was carried out through two main methods: research and interviews. In order to accomplish the thesis objective, at the beginning many scientific papers, documents by the public entities (as the Ministry of Justice) and newspaper articles have been read and deeply analysed. It has been useful in order to obtain both technical information and critical opinions. From the institutional actors, like Social Finance, it has been possible to collect all the information useful in order to understand how the SIB model works: the relationships between different actors, the type of contracts they signed, the hypothesis underlying the model, its objectives, its potential problems.

On the other side, newspapers, articles, blogs were useful to identify all the criticalities that this instrument presents in different contexts but also the potentialities that can be exploited over time.

After having understood in a detailed way the mechanism of the SIB and having analysed several different cases around the world, the focus was moved to Italy. One of the most promising sectors for the application of this method was identified in the “children at risk at the edge of care”. The choice was supported by other existing cases and by the collected data related both to the great costs that characterize this sector and by the high relevance of the social problem. More specifically, I carried out a feasibility process, in order to understand if the sector was eligible for the introduction of the SIB model. Social Finance, in fact, provided a detailed method to understand if a determined issue, like the children at the edge of care one, has all the needed characteristics to make possible and successful the implementation of the SIB model.

Therefore, the following questions were considered:

1. The intervention is preventive in nature and sufficient funding is currently unavailable?
2. The intervention is preventive in nature and sufficient funding is currently unavailable?
3. The specific impact of the intervention can be quantified?
4. A sufficient number of people will benefit from the intervention that the impact can be robustly measured?
5. Is it possible to identify a specific government stakeholder that will achieve savings or lower costs as a result of action taken by others?

6. The savings for the specific government stakeholder are significantly greater than the cost of the intervention and any other transaction costs ?
7. Is it possible that government would enter into an arrangement to pay some proportion of the savings back to the SIB ?

As deeply explained in the next paragraph, all these questions had a positive answer and it was possible to start investigating the “children at edge to care” sector in Italy, in order to study the scenario of an introduction of the SIB model.

Proposal of introduction of SIB model in Italy

In this chapter the aim is to understand how it would be possible to introduce the SIB model in Italy. The idea is to use the children at the edge of care sector to start a pilot project.

The chapter starts with a description of the issue; then the feasibility assessment process will be described in order to demonstrate that the sector is eligible for the SIB tool; moreover, there will be a paragraph dedicated to the calculation of the main costs in order to provide some data estimations supporting the eligibility of the proposed sector; then the main problems related to the implementation of the SIB tool in Italy will be faced in order to understand if and how it would be possible to overcome them.

Children at risk of going into care sector

The problem description

According to a research provided by the Italian Government, there are almost 35.000 children who live in the so called “family homes” or with “foster families”. More specifically, there are 15.000 children in the family homes. The family homes are specific structures in which children in need are hosted; while foster families are all those families in which children are not legally adopted but the foster parents have the responsibility to take care of the children for a determined period of time. (ISTAT, 2011)

What are the reasons why these children go into care? According to the same research:

- The 37% due to “parental inadequacy”;
- The 9% due to drug problems of one or both the parents;
- The 8% due to relationship problems within the family;
- The 7% due to abuse or carelessness;
- The 6% due to health problems of one or both the parents.

The research does not clarify who are the remaining 11% (comprising the non-EU children), but it specifies that the children placed into the family homes have their own family, they are not orphans (who represents the 1% of the children hosted), children with unknown parents (1%) or abandoned children (4%). (Adiantum Association, 2013)

The phenomenon, if compared with the data collected in the 1998/99, is increased about the 24%. The placement in the communities has remained constant, while the number of placement in families is increased about the 24%.

Not considering the percentage of children removed due to abuse and drug and alcohol problems, there are 51% (37% + 6% + 8%) of cases that belongs to a wide “grey area”: there are not, in fact, specific and listed motivations that bring children to be collocated in the house families but only generic causes. (Adiantum Association, 2013)

Another relevant data is given by the family house’ “turnover”: in 2010, there were 10.000 children going out of the communities and the same number going in. (Adiantum Association, 2013)

The reasons why children are dismissed are mainly two: coming back into their own families (34%) or the change of community (34%). Then there are 7% who start a path with another foster family and the 8% who start living on their own. The remaining 7% sees “different situations”. Not all of the over eighteen years old are dismissed: 2844 young people (from 18 to 21 years old) remain in the family houses and the 36% of them are not Italian. (Compagni di volo , 2011)

The most part of the placed children (84%), according to the research, have an individual educative path that specify the main aspects of the protection interventions. In the case of children in foster care, the 74% of families receive support by the public social service. (Compagni di volo , 2011)

The most important aspect that has to be deeply analyzed is the negative impact that being far from their families has on children. It is important to make a premise: as already said, a part of the children hosted in the house families come from violent and/or criminal situations. In these cases to grow up far from the families is the only choice. Therefore the following consideration will be related to all the cases in which the parents are considered inadequate for economic, relationships or health problems.

There are many articles talking about the big trauma suffered by children who are separated from their families. It is much more difficult to find scientific and official researches and data. (Ordine degli Psicologi della Lombardia, 2011)

One of the most recent study that it is possible to mention is the San Raffaele University one, conducted in collaboration with the Norwegian Institute, then Virginia Institute, the Queensland Institute and published on “The Archives of General Psychiatry”. It demonstrates that children who live experience of separation from parents, are more likely to get sick from panic attacks. The research allows to better define the importance of the genetic and environmental factors over the development of these kind of disease. Seven hundred twins have been included in the study in order to isolate the genetic factor and demonstrate that the one that has suffered the trauma of separation from the family presents a high probability to suffer of anxiety and depression, and show lasting psycho physiological changes that are indicators of risk for various ailments throughout their lives. (Dr. Zambello, 2012)

Furthermore, the professor Ammaniti, who teaches childish neuropsychiatry at Sapienza University, includes the removal from the family among the causes that bring children to develop some diseases like the dissociation (presence of multiple and incompatible personalities). (Ammaniti, Speranza, & Nicolais, 2002)

Therefore there are several evidences that the removal of children from their family brings many traumas and that it is important to consider what are the possible alternatives.

Moreover, the separation of a child from his family is a trauma for the parents. As explained even by “Animazione Sociale” in a report (Animazione Sociale, 2012), parents perceive the separation as an unjustified punishment, even a treason, consequence of another failure of their life.

Currently, as anticipated, the situation in Italy sees 30.000 children hosted by house families or foster families.

The process of removal starts with a signal; after that the Court requests a Report to the local social services planning some interviews with the child and the family, if necessary in the presence of a psychologist. If, after all the investigation, the child is brought away from his family, he will be hosted by a family house. This kind of services are managed locally: the child is assigned to a specific structure that receives monthly a tuition by the Municipality.

Even the foster families receive some benefits and monthly subsidies by the local public entities. Each Administration provides them with different sums that depend also by the Court decisions on each specific case. (AIBI, 2013)

The feasibility process

In literature there are many authors who highlight the importance of the feasibility process in the adoption of the SIB model. It is essential to understand if the issue we are considering fits all the SIB tool requirements. The figure below, built considering the advice of institutional papers provided by the UK Government (Griffiths & Christian, 2014), Social Finance (Social Finance, 2014) or Finance for Good (Finance for Good, 2013) makes the six most important questions that should be considered during a SIB feasibility study.

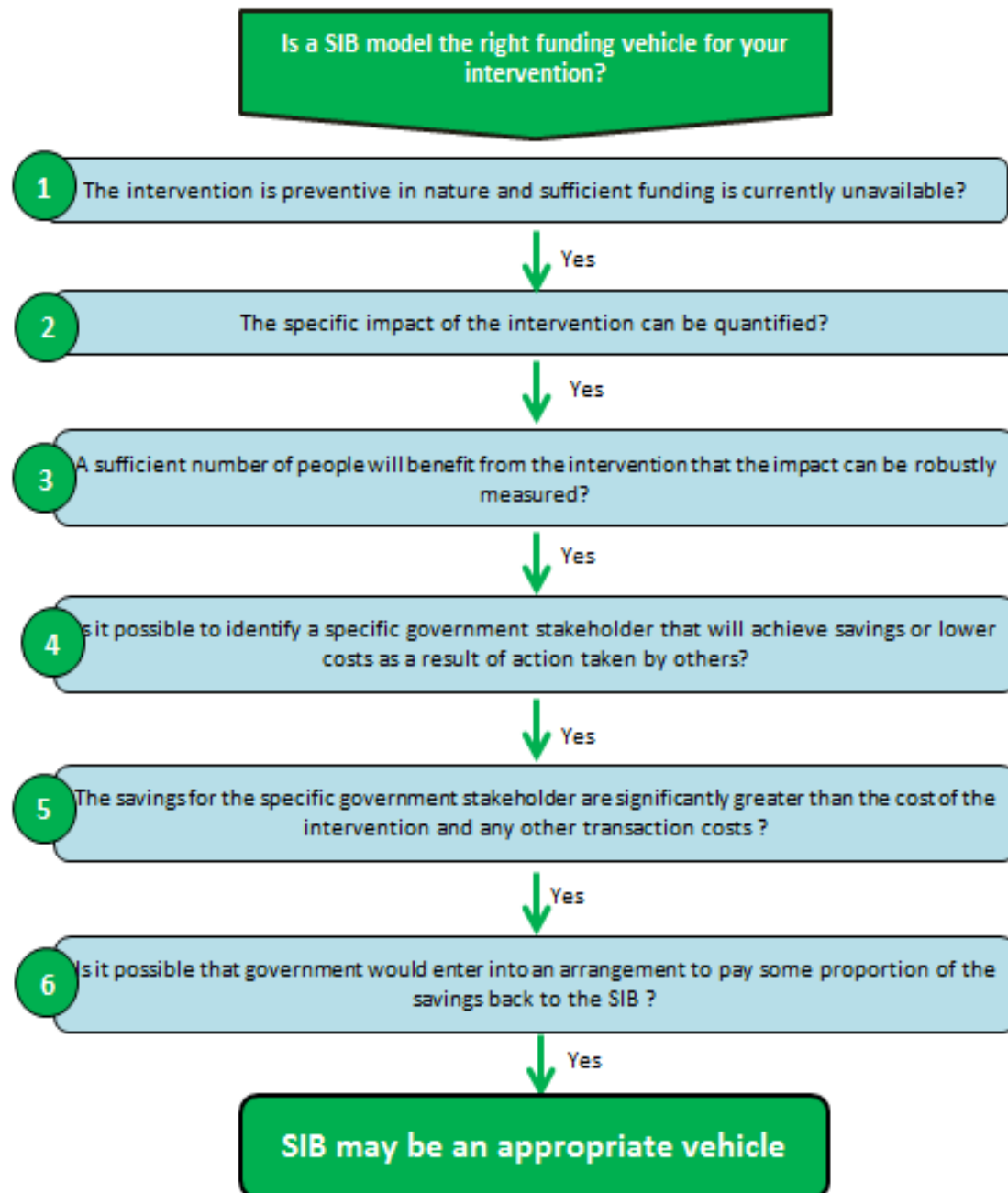


Figure 24: SIB Feasibility Assessment Process; Source: adapted from “Introduction to Social Impact Bond and early intervention”, Early Intervention Foundation, 2014

The first one is related to the preventive nature of the intervention considered. As already said, this point is fundamental to allow the success of the tool: acting preventively in fact is, on one side, the most effective way to create future savings for the Governments that will benefit from less social service expenses and, on the other side, to obtain real social benefit acting on the root causes. Moreover, it is important to look at the current availability of funding: it is better to choose a sector in which the funding methods traditionally adopted do not result effective enough to guarantee the achievement of the results. (Early Intervention Foundation, 2014)

The second question is related to the possibility of quantification of the social impact we should obtain through the intervention. Investors' payments are based on the results; for this reason, it is essential to quantify and measure reliably the outcomes. Not all the social programmes are eligible because in many cases it is difficult to quantify in the proper way the effectiveness of the intervention. If a social programme aims at helping disabled people, for instance, the improvement of their daily life in all the different aspects it is not easy to be quantified.

The third one is related to the volume of people that could potentially benefit of the intervention. As explained, one of the advantages of the SIB model is its scalability: the model allows extending the programmes easily if they result effective. (Social Finance, 2012) Therefore, the issue on which the model is implemented should be something that involves a consistent number of people.

The fourth question takes into account the Government savings. This point cannot miss. A public entity (local or central) that will benefit from the implementation of determined programmes has to be clearly identified and the future savings quantified. In fact, in the most part of the SIB cases, investors' payments are allowed by Government savings. (Liebman J. B., 2011)

Furthermore, as specified by the fifth question, the savings must be higher than the cost of SIB interventions. The application of the model and of all the identified programmes have some transactional and implementation costs that have to be covered by the sum of present and future savings.

Finally, the Government should have the legal possibility to enter this network of contracts and to pay back investors if the results will be achieved.

Is it the “children at the edge of care” a feasible sector?

1. The intervention is preventive in nature and there are not enough funding

The proposal is about starting preventive programs towards children on the edge of care, avoiding in such a way that they will grow up far from their parents. These programs should include economic and psychological support to the families that the intervention will take into consideration, during a long lasting period of time.

More specifically, the service provider organization will evaluate the specific needs of each family providing customized support helping, for example, parents in the relationship between each other and in the education of their children or the child to overcome his own problems within and out of the familiar environment.

Currently, in Italy, there are not any provider that offer this type of assistance. There are some associations or Asl that started taking into consideration the home care services but they are provided just in case there is the physical impossibility of the patient to reach the hospital or the venue. Even more difficult is to find entities that provide psychological support not linked to the physical assistance. For instance, there are associations that offer psychological home care to cancer patient and their families or to old people who cannot leave their houses.

Through the 328/00 law, the Italian Government introduced a new mechanism to manage the sanitary and social services and interventions. Specifically different zones, called “ambiti”, have been identified in order to combine the need to have a local management of these kind of services without obtain a too fragmented organization. It has been decided to make these zones coinciding with the already existing “distretti sanitari” in order to make easier the integrated provision of social and sanitary services. (Gazzetta Ufficiale, 2000)

The 328/00 law establish also a new local instrument that each ambito must use: the “zone plan” (piano di zona). It is a local tool that allows local communities to evaluate, plan and implement in an integrated manner the social and sanitary services, following the provided regional guidelines. It comprises processes of reading and diagnosis of

needs, the definition of shared goals and the identification of all the necessary operations needed to implement the plan. As already said it is an integrated plan; different actors participate to its definition:

- Municipalities included in the specific zone;
- Asl;
- Third sector organizations;
- Other local public institutions interested in the provisions of social and sanitary services. (Gazzetta Ufficiale, 2000)

Therefore, what is important to underline is the local and integrated management of these services: this means that the SIB project will be managed locally. In fact the projected savings (see “cost” paragraph) are mostly related to the Local Authority: indeed, municipalities are in charge to pay the monthly tuition to the house families and they would be the main public actor in the SIB contract.

Furthermore, it will be very important to target the population that will benefit from the program. Among the 30.000 children that currently are brought away from their families, half of them are potentially eligible. In fact, as already explained, they are in a “grey area” and don’t belong to families with dependencies, violence or abuse problems.

The programs will be provided to that families who have relationships or/and economic and/or health problems, helping them in different ways: subsidies, psychological support, help in finding a new job, couples therapy, health care and so on.

These type of intervention will prevent children of going into care, allowing both a social impact (because children will grow up with their families, avoiding a terrible trauma that usually has negative consequences for their future) and an economic impact (as shown in the section about costs).

2. The intervention improves the social wellbeing and prevents or ameliorates an undesired outcome

The improvement of the social wellbeing, given by the implementation of the specified programs, are given by:

- Avoided trauma for the children who keep staying at their home;
- Avoided trauma for the parents who suffer a lot the distance from their children;

- Greater future perspective for the children: staying at home followed by professionals figures may give better results. In fact, as attested by the interviewed people, when children leave the house family, in the most part of the cases, have not concluded their studies and find several obstacles in finding a job. Moreover, a great part of them chose not to try to have an honest job, starting different type of illegal activities. So, among the social impacts, there will be also less micro criminality among young people because the interventions will be provided to those families that are more at risk to see their children taking the wrong road.

Furthermore, it is important to consider the risk that the initiated program through the SIB model would be unsuccessful. It is important that, in case the initiative will not be completed, the damn caused to the target group is not excessive. In the particular situation studied in this thesis, if the program will be interrupted very likely children will be hosted by family houses as currently happens.

3. The specific impact of the intervention can be quantified

It is possible to estimate the impact of this program reliably taking into account a certain number of important factors.

The first step consists in the identification of a specific target of children: using the example of the Essex SIB, the targeted population may be:

- Children of 11-16 years old;
- Children at risk of going into care due to behavioural problems or family breakdowns

The second step consists in the determination of a control group: 11-16 years old children who did not benefit from the SIB programmes. It is very important to select carefully the participants of the two groups in order to constitute two homogeneous and real comparable groups: besides the age constraint it should be described the familiar situation children come from, circumstantiating to family that present relationship problems (risk of parents separation, difficulty in the parents-children relationship), behavioural problems, economic and health issues.

Then, it is needed to specify the expected outcomes. In this case it would be useful to choose a specific outcome according to which investors will be pay back. For example it is possible to measure the “total number care placement days” saved compared against a comparison group (as done in the Essex case). Furthermore, in order to demonstrate the social value and the effectiveness of the implemented programmes it is possible to measure other indicators and compare the obtained results for the two groups (target and control). (Barcley, 2013) For example:

- Number of people with a diploma
- Number of people who left the study
- Number of people who get a job
- Number of NEET
- Number of people imprisoned
- Number of people denounced for some illegal activities

The measurement of these last indicators require more time and efforts. That is why it is advisable to use basically the “total number care placement days” to pay back investors. At the same time they are a good measure of the effectiveness of the programmes in the long run and they result important in order to understand the quality of the provided services.

It is really important to define at the beginning what is the result we want to achieve for each indicator and to show how they can be achieved. In such a way private investors will be repaid according to transparent and objective results and transparency of all the operations will be assured. (Barcley, 2013)

4. A sufficient number of people will benefit from the intervention

As explained, the SIB model works well if applied on a large scale because this allows the Government to record more consistent savings. In Italy, as already mentioned, there are potentially 15.000 children who, with their families, are eligible to benefit from these interventions

For sure, as done in all the other cases worldwide, the pilot project will start on a small scale (implementing the programmes on a small population) and, if successful, it will be enlarged. (Barcley, 2013)

5. It is possible to identified a specific Government stakeholder that will achieve savings or lower costs as a result of action undertaken by others

In this case it is possible to understand what is the public entity that will record savings. According to the calculation made in the “Cost” paragraph, the Government will have savings in the short term given by the reduction of the tuitions provided to the house families. Moreover it will have savings in the future related to a reduction of unemployment and criminality. Specifically, these savings will be related to the Local Authority, that pays the family houses to take care about children who need it. Therefore, if the SIB implementation would be successful the Local Authority will benefit from cashable savings given by the missed tuition fees for all the children who stay at home instead of staying in the family home. In the future there will be saving also for the Government given by less NEET, less offenders and more employed honest people.

6. The savings are significantly greater than the cost of intervention and any transaction costs

According to the calculation the present and future savings will cover the costs. In fact there are not initial significant investments: the interventions will start keeping into their own families children who are considered at the edge of care and give them and their families economic and psychological support. Looking at the section of costs it is possible to note that these costs will be lower than the tuition given to the house family to care the child.

7. It is possible that the government would enter into an arrangement to pay some proportion of the savings back to the SIB

Currently, given the legal constraints it would not be possible. There is the need of changing the already mentioned laws or make some exception to the general rule (as done in UK). (Fondazione Cariplo, 2013)

Costs

Currently, the costs sustained by the Local Governments to take in care 30000 children are very high. It is important to underline that the monthly tuition that the house family receive for each hosted child is paid by the Municipality.

The Federcontribuenti estimated at EUR 2 billion annual public expenditure allocated to support the award of under eighteen years old children. A children who lives in an house family costs between 70 and 250 € per day (tuition provided by the Local Authority to the House Family) while a children who is fostered by a family just 13€ per day (only one out of five children). (AIBI, 2013)

Moreover, as explained by Roberta Lerici, president of “Bambini Coraggiosi Association” and director of the “Movimento per l'Infanzia”, interviewed by phone, the family houses are not submitted to any kind of control related to their expenses and in some villages having only four children into care means to cause terrible financial difficulties.

Considering that around 15.000 children are hosted by communities we can calculate the annual expense:

$$15.000 \text{ children} \times 160 \frac{\text{euro}}{\text{day}} \times 365 \text{ days} = 87.600.000 \frac{\text{euro}}{\text{year}}^1$$

Given the data described above, half of them are victims of abuse or have parents with drugs or alcohol problems. But the others may be helped in another way. The proposal consists in helping the family both through economical and psychological support.

More specifically, for each family a monthly economic contribution should be identified taking into account different drivers like the number of children, the region where they live and their current salary. Furthermore, a customized psychological program has to be identified according to the specific situation: couple therapy, psychiatric support to parents and/or children, psychological support to improve the familiar relationships or face a difficult situation (for example in cases where there are health problems), academic tutoring.

¹ 160 euro per day is obtain through an average between 70 and 250 euro per day. The tuition changes a lot according to the local administrations considered; so it is useful to make an average in order to provide a good estimation of the sustained costs

In the most part of the cases, families just have relationship-wise or economic difficulties. If the Government would support them through efficient long lasting programs instead that just in the short term, these children can remain with their parents. In such a way they could avoid the trauma to be brought away from the most important people they have. According to UNICEF, there is not any institute, even if very well managed, that can substitute the family environment that is fundamental for the physical and psychological development of children. Moreover currently, when these children become over eighteen they have to leave the house family without any kind of help by the Government. The great amount spent by the State till that moment in this way does not assure any positive future and represent not an investment in children future but just an expense. Therefore, the implementation of the SIB model would bring to a double financial and social impact. In fact, in the short term children stay with their parents avoiding an important trauma. and in the long term they have a lower probability to become NEET (not employed, in education or training), to develop dependencies or to start criminal activities. At the same time the Government will register savings in the short term that it is possible to calculate as follow:

- Children who live into family houses:

$$7.500 \text{ children} \times 160 \frac{\text{euro}}{\text{day}} \times 365 \frac{\text{days}}{\text{year}} = 438.000.000 \frac{\text{euro}}{\text{year}}^2$$

- Children who are by foster families:

$$7.500 \text{ children} \times 13 \frac{\text{euro}}{\text{day}} \times 365 \frac{\text{days}}{\text{year}} = 35.587.500 \frac{\text{euro}}{\text{year}}$$

It is important to remember that in Italy there is not a minimum guaranteed salary; there are only some familiar allowances, facilities or exemptions varying according to the ISEE value and to the number of children that are provided by the Municipalities and that vary according to the Municipality we are considering.

The SIB project, on the contrary, wants to provide a monthly “salary”, in order to help families in acquiring stability, facing their current problems and reaching gradually the needed economic autonomy. The idea is to help economically the target families

² Children who are hosted in an house family are around 15.000; half of them do not come from criminal or violence situations and it is possible to implement for them interventions in order to keep them with their families.

defining the amount they need and the conditions they have to respect to keep benefit from the program.

The Eurispes data, provided through the “L’Italia in Nero” report, say that a family composed by four people “to live with dignity” needs around 2,500 euro per month. (Eurispes, 2012) According to Francesco Alvaro, Ombudsman for children in Lazio, it would be enough to give 1.000€ per month to the families³ and these children could grow up with their parents. (Il Tempo, 2012)

This cost represents the cost of the intervention implemented trough the SIB model. (Il Tempo, 2012)

So the local Government will spend:

$$1.000 \frac{\text{euro}}{\text{children} \times \text{month}} \times 15.000 \text{ children} \times 12 \text{ months} = 180.000.000 \frac{\text{euro}}{\text{year}}$$

So the savings would be around:

$$\begin{aligned} 438.000.000 \frac{\text{euro}}{\text{year}} + 35.587.500 \frac{\text{euro}}{\text{year}} - 180.000.000 \frac{\text{euro}}{\text{year}} \\ = \mathbf{293.587.500 \frac{\text{euro}}{\text{year}}} \end{aligned}$$

Till now it has been described only the costs and savings that will be generated if preventive programs towards children at risk of going into care will be provided in the short term. But it is really important to consider also other type of costs. For instance, children who grow up in family houses have an higher risk not to complete their studies, not to find an honest job, not to be integrated in the society. All these scenarios would represent a future costs for the Government in different forms:

- subsidies and economic incentives for people who don’t study nor work;
- unemployment costs;
- the cost of the petty crime (detention and rehabilitation costs);
- the negative social impact for the whole society.

³ Considering a family constituted by two parents and two children

Proposal

In order to define the model it is important to underline some aspects.

Main obstacles and possible solutions

First of all, this would be the first experiment of Social Impact Bond in Italy. It means that it is needed a greater attention and control because there are no consolidated procedures different actors can count on.

Moreover, as already mentioned, there are some constraints given by accounting and competition laws. In other countries, like in Great Britain, the first SIB was developed through some “exceptions to the general rules”. More specifically, there is a set of laws established by the European Union related to the assignment of public contracts to a specific supplier. (Fondazione Cariplo, 2013) In UK the Ministry of Justice found very difficult to apply these laws to an innovative instrument like the SIB: there is not, in fact, a mature market the Government can look to. Therefore, it has been decided to make an exception, assigning the contract without any competitive procedure. (Ministry of Justice, 2011)

In Italy the problem is to understand if the SIB contract belongs to the category of contracts regulated by the “Codice degli Appalti” (which contains all the EU laws) or if it might belong to the “sanitary and social services” excluded by Codice. In this case, it would be easier to implement the SIB tool: the law requires to put in competition at least five entities and to guarantee transparency, quality, efficiency and equal treatment but there are not all the specific procedures required by the Codice degli Appalti; otherwise it is possible to consider the UK experience and to make an exception to the general law of the Codice degli Appalti. (Fondazione Cariplo, 2013)

SIB contract actors

A crucial actor in the SIB network of contracts is the intermediary. In UK the most known is Social Finance, *“a not for profit organisation that partners with the government, the social sector and the financial community to find better ways of tackling social problems in the UK and beyond”*. In USA it is more common that banks, as Goldman Sacks, play this very important role within the SIB scheme. In Italy

currently there are not intermediary that could be compared with the English Social Finance. Indeed, in this period in Italy different banks, like Banca Prossima and Banca Etica, are demonstrating a great interest in this new kind of funding instrument. They are financial institutes that work locally and have a deep knowledge of the territory. They consider not only the economic value of an investment but also the ethic, social and environmental sensitivity. (Banca Etica)

One of the possible solution may be to make the first experiment through a bank and to encourage the creation of this kind of social organization after the first experiment. In USA it is the most common model: Goldman Sachs and The bank of America participated in the most important pilot SIB projects (like the Rikers' Island prisoners one).

The other important actor is the public entity. In the specific sector of children at risk of going into care, savings will be recorded by the Local Authorities. In particular, each Local Authority is responsible for the children who are resident there. So the short term savings given by the reduction of the number of children going into care will be accounted to the Local Authority, but the long term savings are related to the central Government (reduction of prisoners an micro criminality costs as well as an increasing of the social wellbeing).

The best solution, in this case, may be to choose a big Municipality, like Milan, that is more well organized to face the introduction of a completely new system. Introducing the SIB model, in fact, requires an high level of transparency in order to gain the investors trust. Therefore, it is crucial to have structured public organizations that use to deal with specific procedures: a small Italian village would not be prepared, at the organizational level, to deal with a so important and innovative project. Furthermore, in cities like Rome or Milan there are more children association that usually are bigger and better organized if compared with the small villages one among which it is possible to choose in order to start the SIB pilot project.

It is also important to define from the beginning a contract between the intermediary, the Local Authority and the Central Government to decide which part of the repayment to the investors will be done by the Municipality and which part by the State.

The other important actor is the Social Organization. In Milan there are a lot of cooperatives and associations that take care families that are in a critical situation. The Local Authority and a third independent part will:

- Choose an association or cooperative willing to implement transparently an innovative model;
- Target the population: identify the characteristics of the children at risk of going into care we want to enter the programmes and find them;
- Define the control group: it means to identify a group of children with a background similar to the tested group one, that will be kept in the house families following the traditional path in order to be able to measure the achieved results comparing the two groups;
- Define a set of indicators to measure the results in different moments during the implementation of the programmes.

Essential, then, is to find the pull of investors willing to take the risk of a so innovative and new project. It is really important to find social investors, people or organizations that have as their main purpose the social one (before of the financial one).

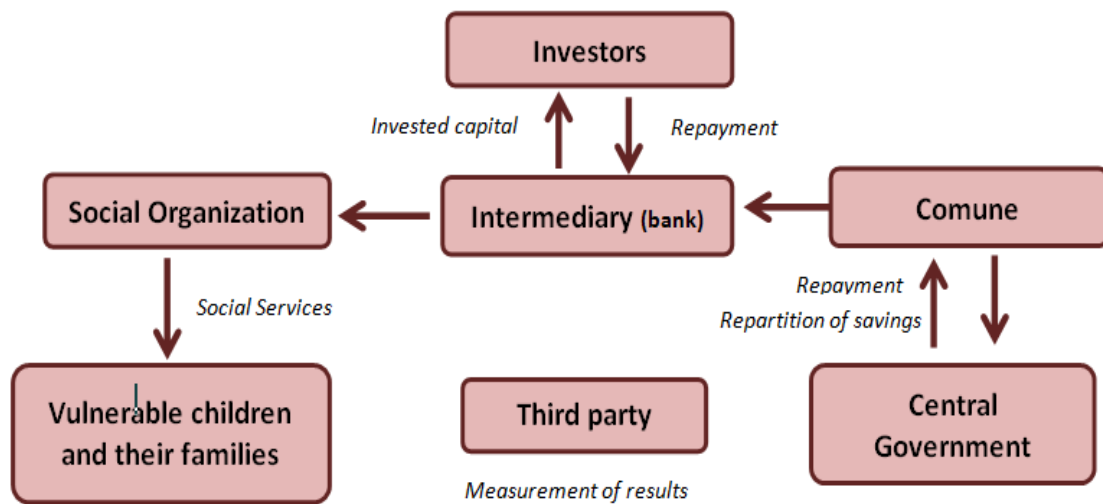
The most important point that should be defined is given by the repayments:

- If the determined objectives are not reached the investors will lose the entire capital or just the interests on it? Because if it will be difficult to find so high risk attitude investors, the solution is to find one or more entities that are available to recover the capital if the objectives will not be meet (like in the Rikers' Island case where the Bloomberg association secured the great part of the invested capital).
- Will there be just some defined results that must be achieved or will be defined different threshold for each objective and the repayments will be made in proportion of the level of reached result?

Considering the level of innovativeness of the model, in case it would be difficult to find a pull of investors, the best solution would be to secure almost a part of the invested capital: at the beginning, investors are sceptical about a totally new financial instruments so they will be encouraged having more assurance on their capital. After the first experiment, if the results will be positive, there will be more investors willing to risk their entire capital. In the same perspective it would be more reasonable to establish some thresholds for each indicator in order to have higher repayments for higher results.

The last actor is the previously mentioned “third party”. Its role is to guarantee the transparency of the model, the regularity of the network of contractors, the fairness of the measurements of the results and of the determination of the objectives. To measure the results means to compare the situation of young people grown up in a family house and the one of children grown up in their own families supported by professional both in their economic and psychological problems (indicators that may be used are listed in the following paragraph).

The network of relationships is simplified in the following diagram:



Conclusion

This document, as many others published about the Social Impact Bond mode, puts in evidence the double sides of this innovative instrument, studying in particular the scenario of the SIB introduction in Italy.

From one side it represents a very innovative financial method that answers to many of the social impact investing market current needs.

First of all, the network of contract allows the Government to face a specific social problem in an innovative manner, trying to solve it acting on its root causes, in a preventive perspective. The recent economic crisis, in fact, reduced the availability of public funds to finance the third sector organizations. The risk is to start a vicious cycle: less funds dedicated to preventive programmes will bring to more expensive social costs, leading to reduce more and more the preventive project capital.

The public entity has, through the SIB model implementation, as deeply explained, the great advantage to transfer the risk to the private investors, making easier also the implementation of innovative and long lasting programmes (usually perceived as too much risky by the Governments).

Furthermore, the SIB tool gives great importance to the intermediary role. Currently, one of the biggest problem of the social impact investment market is the difficult match of demand and supply sides. There are investors willing to provide their capital in social purpose projects and a lot of organizations that need a stable capital flow to carry on their programmes. The intermediary has the important role to put in contact the two sides of the market and the great responsibility to satisfy both of them, reaching shared objectives. Moreover, it plays a role of supervision and monitoring of the activities, guarantying transparency, providing partial results and modifying the project if middle outcomes are not satisfactory.

Thus, the SIB model may allow the implementation of preventive, effective and long lasting social programmes: through spot donations, that today characterize the most part of capital source for the social purpose organizations, it is very difficult to implement these type of projects.

In this sense, the Social Impact Bond model is very innovative and represents an opportunity that Italy, as other Countries in the world, should carefully study and consider.

On the other side, the implementation of this tool would find many obstacles and may present different drawbacks.

First of all, considering that it was born few years ago, there are not enough data about the results it is giving in the already existing cases around the world and it is hard to forecast with a good level of accuracy what may be the results in Italy. It means that all the actors should be aware of the risk they are taking experimenting a so innovative tool and that there is a need to monitor constantly and carefully the progress of the implemented initiatives.

As highlighted, one of the most important characteristic the SIB must have to be successful, is the transparency of all the operation, in particular the measurement process. Today there is not any tracking of the implemented programmes by the social organizations and it results very difficult to understand if and how a specific intervention works. So it is necessary to build and implement a transparent and accurate measurement system.

Furthermore, it is necessary to have a clear as-is situation, understanding what are the current sustained costs and the obtained results. It is not easy given the fragmentation of data in the chosen sector. More specifically, the social services are managed locally, usually in an integrated way with the sanitary ones. It is difficult to split the aggregated available cost in all its parts: for example, the Asl may provide the daily cost of hospitalization per patient but not the cost of the single psychologist who cares about him.

Moreover, the SIB model may bring to the exclusion of no profit organizations from the most important social initiatives; furthermore the payment by result model needs, as explained, the clear definition of measurable objectives: in this case the risk is the distortion of the provided activities which take into consideration only the achievement of those objectives and not the real needs of people.

Last, but not least, there are a set of legal constraints that should be faced to allow the implementation of the SIB model.

Therefore, the model presents very high and important potentialities and could be applied in many different sectors. That is why, even without forgetting the potential drawbacks it presents, it is an opportunity that should be studied more deeply by public and private institutions in order not to miss the chance to solve innovatively and effectively problems that have a great negative impact in our Country, both economically and socially.

The sector of the “children at the edge of care” has already been considered for the SIB model also in other Countries, because it results feasible with the SIB requirements, as demonstrated in this paper.

Studying this specific sector, it resulted evident how much hard is to find quantitative data able to provide an accurate as-is picture in order to understand what are the current gaps and the objectives that should be achieved in the to-be situation.

It is important to implement a robust measurement system, defining indicators, how they are measured and the outcomes that the SIB programmes should meet.

The sensitivity to all these impact investing themes, in particular on the Social Impact Bonds, is increasing in Italy.

During the last weeks the ENPAP, a private foundation that deals with the compulsory insurance of psychologists who conduct business in the form of professional services, launched a “call for ideas”. The aim is to collect ideas and projects in order to build the first portfolio of interventions in the psychologist field to be provided to the Public Administration.

The ENPAP wants to become the promoter of the birth of the Italian Social Impact Bond; with its capital resources, which should be invested to produce financial returns, it will finance interventions in which psychologists have a leading role. What ENPAP wants to demonstrate is that the psychologist work has both a social and economic positive impact, in terms of savings on public spending.

Furthermore, Human Foundation with Mauro Berruto, president of Destinatione Sport, are studying the introduction in Italy of the first SIB for the prevention of diabetes, as already experimented in Israel.

Another proposal is related to the public education and it is present in the “Piano Scuola” presented by the Government last September. In this case, the SIB is just named as a channel of private funding: the idea is to externalize some education projects to private foundations and then measure the obtained results (for instance the change in specific behaviours of a class after a course about health problems).

The ideas may be a lot and the SIB model may offer several advantages answering to the current needs of the welfare system, making available stable source of capital, pushing the development of innovative social programmes, lowering the risk for the Public Administrations, increasing the transparency and the effectiveness of these initiatives.

If the Italian Government and all the interested institutions will be aware of all the previously explained risks and potential drawback in developing the pilot project and they will try to reduce and circumstantiate them, the Social Impact Bond can represent a very good opportunity to innovate the social investment market and use the finance in a positive and ethic manner.

Appendix

Interview to Roberta Lerici

Role: President of “Movimento per l’Infanzia del Lazio” and Childhood Responsible for Italia Dei Valori

What are your experiences about the reaction of children left to the families?

“Usually the trauma suffered by children is so deep that in many cases they are not able to overcome it. Excluding all those cases in which children cannot stay with their parents due to violence or dependency situations, in all the other cases they suffer a lot the forced removal. In many cases the behavioural problems they have get worse and in very few cases they are able to build their future like the other children, completing their studies and finding an honest job.”

What is the parents reaction?

“It depends by the situations. In the most part of the cases it is a terrible trauma. There are cases in which the mother denounces her husband for violence and the children are brought away because she has no salary; others in which the parents have no enough money to grow their children even if they are good people. In this cases they are desperate and fight a lot to have their children back at home. There are, of course, all those situations in which parents are not able to take care of their children due to violent behaviour, drug addiction, sexual violence, mafia or delinquency that result very hard: if children are brought away when they are very young it is easier to keep them far from their families but if they are teenagers the family has “more power” and usually children come back to their families after leaving the family house.

Are there any traces about the programmes children follow on the house families?

“No. This type of structure is not subjected to any kind of control. It is currently impossible to understand exactly how they spend money that are provided by the Municipality or what children do within the house family.”

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